# The Hongkong and Shanghai Banking Corporation Limited

## New Zealand Banking Group

**Disclosure Statement**

**30 June 2014**

HSBC

# Disclosure Statement
# For the Six Months Ended 30 June 2014

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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 structured 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 subsidiaries and associated companies.

## Ultimate Holding Company

The ultimate holding company of HBAP is:
HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom

## Access to parental disclosures

The most recent publicly available financial statements of HBAP Group and HSBC Holdings plc can be found at HSBC Holdings plc's website, www.hsbc.com under Investor Relations, Financial and regulatory reports.

## Ranking of Local Creditors in a Winding-up

Under Section 265(1) (db) of the Companies Ordinance of the Hong Kong SAR which HBAP is subject to, in the event of a winding up of HBAP, there shall be paid in priority to all other unsecured debts the aggregate amount held on deposit, up to a maximum of HKD 500,000, to each depositor and that this Section has no geographic limitation. No other material legislative or regulatory restrictions in Hong Kong SAR exist which would subordinate the claims of any class of New Zealand branch unsecured creditors on the assets of HBAP to those of any other class of unsecured creditors of HBAP in a winding up of HBAP.

## Guarantee Arrangements

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

## Government Guarantee

No obligations of HBAP that relate to the Branch are guaranteed under a government guarantee as at the date of signing this Disclosure Statement.

# General Disclosures *(continued)*

## Other Material Matters

There are no material matters that, if disclosed, would adversely 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 2014 (as amended).

**Noel Gerard McNamara**
Chief Executive Officer New Zealand Branch. Joined the HSBC Group in 1995 and resides in New Zealand.
He has a Post Graduate Diploma in International Management from the Institute of Management Adelaide South Australia.

Communications addressed to the responsible person may be sent to:
c/o The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch
PO Box 5947
Wellesley Street
Auckland 1141
New Zealand

## Dealings with Responsible Person

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

## Board of Directors of HBAP

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

**Stuart Thomson Gulliver** (Chairman)
Masters Degree in Jurisprudence, Worcester College, Oxford University, 1980
Executive Director and Group Chief Executive, HSBC Holdings plc

**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

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

# General Disclosures *(continued)*

## Board of Directors of HBAP (*continued*)

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

**Graham John Bradley**
B.A., LLB (Hons I) from Sydney University, 1971
LLM, Harvard University, 1973
Company Director

**Dr Christopher Cheng Wai Chee**
Bachelor of Business Administration, University of Notre Dame, 1969; Master of Business Administration, Columbia University, 1979; Doctorate in Social Sciences honoris causa, The University of Hong Kong, 2011
Chairman of Wing Tai Properties 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

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

**Rose Lee Wai Mun**
Bachelor of Business Administration, University of Hawaii, 1977
Vice-Chairman and Chief Executive, Hang Seng Bank Limited

**Victor Li Tzar Kuoi**
B.Sc, and M.Sc., Stanford University, 1986
Managing Director and Deputy Chairman, Cheung Kong (Holdings) Limited

**Peter James Holland Riley**
B.A. Hons in Geography from University College, Durham University; ACA (Qualified 1985), FCPA
Group Finance Director of Jardine Matheson Holdings Ltd.

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

**Kevin Anthony Westley**
Bachelor of Arts, University of London, 1970; Chartered Accountant, Institute of Chartered Accountants in England and Wales
Company Director

# 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**, GBS
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

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 2013.

Christopher Dale Pratt and Andreas Sohmen-Pao resigned as non-executive directors of HBAP with effect from 14 March 2014 and 19 May 2014 respectively.

John Robert Slosar was appointed as a non-executive director of HBAP with effect from 12 May 2014.

## Credit Rating

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

| | Current Rating | Previous Rating (if changed in the previous two years) | Date of Change |
|---|---|---|---|
| Moody's Investor Service Inc. | Aa2 (stable outlook) | Not changed | - |
| Standard & Poor's Corporation | AA- (stable outlook) | Not changed | - |
| Fitch IBCA Inc. | AA- (stable outlook) | AA (negative outlook) | 7 December 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 March 2014.

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

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration, –

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

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

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

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

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

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

## Conditions of Registration *(continued)*

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

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

| Capital adequacy ratio | Minimum requirement | | |
|---|---|---|---|
| | 1 January 2013 to 31 December 2013 | 1 January 2014 to 31 December 2014 | On and after 1 January 2015 |
| Common Equity Tier 1 capital | 3.5 % | 4 % | 4.5 % |
| Tier 1 capital | 4.5 % | 5.5 % | 6 % |
| Total capital | 8 % | 8 % | 8 % |

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

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

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

8. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to valuation measurement period.

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

10. That the business of the registered bank in New Zealand must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.

11. That the business of the registered bank in New Zealand must not provide a residential mortgage loan if the residential property to be mortgaged to the registered bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.

12. That the business of the registered bank in New Zealand must not—

    (a) act as broker or arrange a residential mortgage loan for the business of the registered bank outside New Zealand or for an associated person of the registered bank outside New Zealand; or

    (b) facilitate the drawdown of a residential mortgage loan the registered bank originated as part of its business outside New Zealand or by an associated person of the registered bank outside New Zealand without notifying the Reserve Bank of this activity in the manner and form specified by the Reserve Bank.

# Conditions of Registration *(continued)*

In these conditions of registration, –

"banking group" —

(a) means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013 (unless paragraph (b) applies); or

(b) if the Financial Reporting Act 1993 applies to the registered bank, means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 9(2) of the Financial Reporting Act 1993:

"business of the registered bank in New Zealand" —

(a) means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013 (unless paragraph (b) applies); or

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

"generally accepted accounting practice" —

(a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or

(b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the registered bank is required to prepare financial statements in accordance with that practice:

"liabilities of the registered bank in New Zealand" —

(a) means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied (unless paragraph (b) applies); or

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

In conditions of registration 8 to 12,—

"loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated March 2014:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2014.

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# STATEMENT OF COMPREHENSIVE INCOME
# FOR THE SIX MONTHS ENDED 30 JUNE 2014

| | | Banking Group | |
|---|---|---|---|
| | | Unaudited 6 months ended | |
| *Dollars in Thousands* | Note | **30.06.14** | 30.06.13 |
| Interest income | | **97,138** | 96,941 |
| Interest expense | | **(53,404)** | (57,228) |
| **Net interest income** | | **43,734** | 39,713 |
| Net trading income | 2 | **2,801** | 7,394 |
| Other net operating income | 3 | **17,162** | 19,207 |
| **Operating income** | | **63,697** | 66,314 |
| Operating expenses | | **(29,052)** | (27,741) |
| **Operating profit before provisions and tax** | | **34,645** | 38,573 |
| Net loan impairment (charge) / credit | 7 | **(245)** | 1,427 |
| **Operating profit before tax** | | **34,400** | 40,000 |
| Income tax expense | | **(9,683)** | (11,242) |
| **Profit after tax** | | **24,717** | 28,758 |
| | | | |
| **Other comprehensive income / (expense)** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Cashflow hedges | | **(384)** | 1,005 |
| Income taxes on cashflow hedges | | **107** | (317) |
| Available-for-sale financial assets | | **95** | 392 |
| Income taxes on available-for-sale financial assets | | **(22)** | (110) |
| **Other comprehensive income / (expense) for the period** | | **(204)** | 970 |
| | | | |
| **Total comprehensive income for the period** | | **24,513** | 29,728 |

*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 2014

| | *Banking Group* | |
|---|---|---|
| | **Unaudited** | |
| | **6 months ended** | |
| *Dollars in Thousands* | **30.06.14** | 30.06.13 |
| ***Head Office Account **** | | |
| At beginning of period | **(3,691)** | 13,503 |
| Repatriation to Head Office | **-** | (13,503) |
| Profit after tax | **24,717** | 28,758 |
| At end of period | **21,026** | 28,758 |
| ***Cashflow Hedging Reserve*** | | |
| At beginning of period | **2,327** | 374 |
| Movement in the fair value of derivatives | **(384)** | 1,005 |
| Tax on movements and transfers | **107** | (317) |
| At end of period | **2,050** | 1,062 |
| ***Available for Sale Reserve*** | | |
| At beginning of period | **42** | (187) |
| Movement in the fair value of debt and equity securities | **95** | 392 |
| Tax on movements and transfers | **(22)** | (110) |
| At end of period | **115** | 95 |
| ***Other Reserve*** | | |
| At beginning of period | **1,623** | 1,658 |
| Amortisation of share options granted | **147** | 144 |
| Movement in respect of share-based payment arrangements | **(126)** | (211) |
| At end of period | **1,644** | 1,591 |
| **Equity at end of period** | **24,835** | 31,506 |
| **Represented by:** | | |
| Profit after tax | **24,717** | 28,758 |
| Other comprehensive income / (expense) | **(204)** | 970 |
| **Total comprehensive income for the period** | **24,513** | 29,728 |
| Repatriation to Head Office | **-** | (13,503) |
| Movement in other reserve | **21** | (67) |
| Equity at beginning of period | **301** | 15,348 |
| | **24,835** | 31,506 |

* 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 2014

| | | Banking Group | | |
|---|---|---|---|---|
| *Dollars in Thousands* | Note | **Unaudited 30.06.14** | Unaudited 30.06.13 | Audited 31.12.13 |
| **ASSETS** | | | | |
| Cash and demand balances with central banks | | **750,346** | 439,500 | 763,286 |
| Advances to banks | 5 | **15,387** | 14,016 | 15,179 |
| Debt and equity securities | | **503,008** | 558,891 | 399,585 |
| Derivative financial instruments | 4 | **149,379** | 187,797 | 146,001 |
| Advances to customers | | **3,319,763** | 3,377,422 | 3,372,765 |
| Amounts due from related parties | 4 | **300,736** | 313,776 | 308,868 |
| Other assets | | **17,221** | 18,874 | 16,944 |
| Current taxation | | **-** | 7,302 | 593 |
| Deferred taxation | | **10,932** | - | 9,130 |
| Intangible assets | | **18,974** | 20,559 | 19,847 |
| Fixed assets | | **1,142** | 1,321 | 1,317 |
| **Total Assets** | | **5,086,888** | 4,939,458 | 5,053,515 |
| **LIABILITIES** | | | | |
| Deposits by banks | | **271,057** | 147,276 | 157,678 |
| Derivative financial instruments | 4 | **132,123** | 168,425 | 121,008 |
| Customer deposits | | **2,993,387** | 3,192,595 | 3,135,950 |
| Debt securities | | **769,868** | 497,215 | 792,482 |
| Amounts due to related parties | 4 | **857,874** | 871,945 | 808,696 |
| Other liabilities | | **34,437** | 30,047 | 37,400 |
| Current taxation | | **3,307** | - | - |
| Deferred taxation | | **-** | 449 | - |
| **Total Liabilities** | | **5,062,053** | 4,907,952 | 5,053,214 |
| **Net Assets** | | **24,835** | 31,506 | 301 |
| **EQUITY** | | | | |
| Head Office Account | | **21,026** | 28,758 | (3,691) |
| Cashflow Hedging Reserve | | **2,050** | 1,062 | 2,327 |
| Available for Sale Reserve | | **115** | 95 | 42 |
| Other Reserve | | **1,644** | 1,591 | 1,623 |
| **Total Equity** | | **24,835** | 31,506 | 301 |

*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 2014

| | Banking Group | |
|---|---|---|
| | **Unaudited 6 months ended** | |
| *Dollars in Thousands* | **30.06.14** | 30.06.13 |
| ***Cash flows from / (to) operating activities*** | | |
| Interest received | **91,822** | 99,030 |
| Fees and commissions | **16,935** | 19,056 |
| Realised trading gain / (loss) | **(23,394)** | 19,068 |
| Interest paid | **(58,597)** | (55,166) |
| Operating expenses | **(25,190)** | (34,213) |
| Taxation paid | **(7,500)** | (5,751) |
| **Net cash flows from / (to) operating activities before changes in operating assets and liabilities** | **(5,924)** | 42,024 |
| Changes in operating assets and liabilities arising from cash flow movements | | |
| Cash was provided net from / applied net (to): | | |
| Debt and equity securities matured / (purchased) | **(104,234)** | 235,884 |
| Advances to customers | **110,035** | (19,143) |
| Amounts due from related parties | **(35,759)** | (40,498) |
| Other assets | **1,734** | 977 |
| Other liabilities | **(594)** | (4,956) |
| Debt securities issued | **(16,991)** | 104,539 |
| Deposits by banks | **(519)** | (983) |
| Customer deposits | **(32,472)** | (119,627) |
| Amounts due to related parties | **70,236** | 34,378 |
| **Net change in operating assets and liabilities** | **(8,564)** | 190,571 |
| Net cash flows from / (to) operating activities | **(14,488)** | 232,595 |
| ***Cash flows from / (to) investing activities*** | | |
| Proceeds of fixed assets | **-** | 8 |
| Acquisition of fixed assets | **(118)** | (81) |
| Net cash flows from / (to) investing activities | **(118)** | (73) |
| ***Cash flows from / (to) financing activities*** | | |
| Repatriation to head office | **-** | (13,503) |
| Net cash flows from / (to) financing activities | **-** | (13,503) |
| Net increase / (decrease) in cash and cash equivalents | **(14,606)** | 219,019 |
| Effect of exchange rate fluctuations on cash held | **33,548** | (18,341) |
| Cash and cash equivalents at beginning of period | **(980,300)** | (1,348,708) |
| Cash and cash equivalents at end of period | **(961,358)** | (1,148,030) |

# STATEMENT OF CASH FLOWS *(continued)*
# FOR THE SIX MONTHS ENDED 30 JUNE 2014

| | Banking Group | |
|---|---|---|
| | Unaudited<br>6 months ended | |
| *Dollars in Thousands* | **31.06.14** | 31.06.13 |
| ***Analysis of cash and cash equivalents*** | | |
| Cash and demand balances with central banks | **750,346** | 439,500 |
| Advances to banks – demand | **15,387** | 14,016 |
| Advances to customers – demand | **248,401** | 187,757 |
| Balance due from related parties – demand | **8,068** | 9,042 |
| Balance due to related parties – demand | **(93,323)** | (72,540) |
| Deposits by banks – demand | **(267,419)** | (142,815) |
| Deposits by customers – demand | **(1,622,818)** | (1,582,990) |
| | **(961,358)** | (1,148,030) |

*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 (HINZ) is wholly owned by HSBC Asia Pacific Holdings (UK) Limited which is wholly owned by HBAP. The unit trusts for which the Company acts as Manager are to be wound up in the current financial period. As a result, the Company will cease trading and no longer continue as a going concern. The individual accounts of HINZ have not been prepared on a going concern basis to reflect the likely discontinuation of operations. This has had no impact on the Banking Group financial statements.

***HSBC Cash Fund***
The HSBC Cash Fund was 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 was managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Cash Fund was administered in accordance with the trust deed. All funds received into the HSBC Cash Fund were placed with the Branch and were included in the Banking Group's financial results as Customer Deposits. The HSBC Cash Fund was closed in July 2013.

***HSBC Term Fund***
The HSBC Term Fund was 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 was managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Term Fund was administered in accordance with the trust deed. All funds received into the HSBC Term Fund were placed with the Branch and were included in the Banking Group's financial results as Customer Deposits. The HSBC Term Fund was closed in July 2013.

### 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. The respective directors intend to wind down the company and branch, accordingly, they no longer continue on a going concern basis.

### Non-controlled Structured 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 structured 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 Structured 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. The HSBC Global Unit Trusts will be closed before 31 October 2014.

***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. The HSBC World Selection Funds will be closed before 31 October 2014.

### Basis of Consolidation

***Structured entities***

The Banking Group has established the following structured entities: 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. A structured entity is consolidated when the Banking Group is exposed, or has rights, to variable returns from its involvement with the structured entity and has the power to affect those returns. The structured entities controlled by the Banking Group are established under terms that impose strict limitations on the decision making powers of the structured entities 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 interim financial statements.

### Basis of Reporting

These interim financial statements are prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) ("the Order"), the Reserve Bank of New Zealand Act 1989, and NZ IAS 34 Interim Financial Reporting ("NZ IAS 34") 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.

### 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 2013.

Except as described below, 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 2013. The following changes in accounting policies are also expected to be reflected in the Banking Group's financial statements for the year ended 31 December 2014.

### Changes in Accounting Policies

The Banking Group adopted the following relevant amendment which became effective on 1 January 2014. The application of this amendment does not have an impact to the financial results of the Banking Group.

- Offsetting Financial assets and Financial liabilities (amendments to NZ IAS 32)

All other 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 2013.

### Comparative Figures

These interim financial statements include comparative information as required by NZ IAS 34 and the Order. There have been no changes to the comparative figures other than that noted in note 8, page 21.

### Risk Management

There has been no material change during the six months ended 30 June 2014 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)*

| | Banking Group Unaudited 6 months ended | |
|---|---|---|
| *Dollars in Thousands* | **30.06.14** | 30.06.13 |
| **2. Net trading income** | | |
| Foreign exchange gains | **5,334** | 5,866 |
| Revaluation of derivatives | **54** | 44 |
| Credit valuation adjustments on derivatives | **(758)** | (1,059) |
| Debit valuation adjustments on derivatives | **(1,818)** | 2,517 |
| Gain/(loss) on hedging instrument in fair value hedge | **(238)** | 2,340 |
| Gain/(loss) on hedged item on fair value hedge | **227** | (2,314) |
| | **2,801** | 7,394 |
| **3. Other net operating income** | | |
| Fee and commission income | **19,203** | 21,485 |
| Fee and commission expense | **(2,041)** | (2,286) |
| Gain/(loss) on disposal of equipment, fixtures and fittings | **-** | 8 |
| | **17,162** | 19,207 |

| | Banking Group | | |
|---|---|---|---|
| | **Unaudited** | Unaudited | Audited |
| *Dollars in Thousands* | **30.06.14** | 30.06.13 | 31.12.13 |

**4. 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.

| | Unaudited 30.06.14 | Unaudited 30.06.13 | Audited 31.12.13 |
|---|---|---|---|
| **Assets** | | | |
| Amounts due from related parties | **300,736** | 313,776 | 308,868 |
| Derivative financial instruments – assets | **40,147** | 27,246 | 29,488 |
| **Total related party assets** | **340,883** | 341,022 | 338,356 |
| **Liabilities** | | | |
| Amounts due to related parties | **857,874** | 871,945 | 808,696 |
| Derivative financial instruments – liabilities | **177** | 46,672 | 1,109 |
| **Total related party liabilities** | **858,051** | 918,617 | 809,805 |

**5. Additional financial disclosures on the statement of financial position**

| | Unaudited 30.06.14 | Unaudited 30.06.13 | Audited 31.12.13 |
|---|---|---|---|
| Total interest earning and discount bearing assets | **4,885,173** | 4,699,650 | 4,833,643 |
| Total interest and discount bearing liabilities | **4,657,274** | 4,486,403 | 4,665,265 |
| Total liabilities net of amounts due to related parties | **4,204,002** | 3,989,335 | 4,243,409 |
| Advances to banks pledged as collateral for liabilities in respect of credit support annex obligation to derivative counterparties | **-** | - | - |

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

### 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 funding costs.

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

**Business Segments**

The Banking Group comprises the following main business segments:

- *Retail Banking and Wealth Management (RBWM)*
  Includes loans, deposits and other transactions with retail customers.

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

- *Global Banking and Markets (GBM)*
  Manages the relationships with institutional customers and undertakes the Banking Group's treasury and investment banking operations.

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

| | ***Banking Group*** | | | | | |
|---|---|---|---|---|---|---|
| | **Unaudited 6 months ended 30.06.14** | | | | | |
| *Dollars in Thousands* | **RBWM** | **CMB** | **GBM** | **Total Reportable Segments** | **Reconciling items** | **Consolidated** |
| Operating income | **16,139** | **36,725** | **7,979** | **60,843** | **2,854** | **63,697** |
| Operating profit before tax | **5,824** | **22,923** | **2,815** | **31,562** | **2,838** | **34,400** |

| | *Banking Group* | | | | | |
|---|---|---|---|---|---|---|
| | Unaudited 6 months ended 30.06.13 | | | | | |
| *Dollars in Thousands* | RBWM | CMB | GBM | Total Reportable Segments | Reconciling items | Consolidated |
| Operating income | 13,761 | 38,016 | 11,588 | 63,365 | 2,949 | 66,314 |
| Operating profit before tax | 3,181 | 27,469 | 5,579 | 36,229 | 3,771 | 40,000 |

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

## 7. Asset quality

| | *Banking Group* | | |
|---|---|---|---|
| | **Unaudited** | Unaudited | Audited |
| *Dollars in Thousands* | **30.06.14** | 30.06.13 | 31.12.13 |

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

| | | | |
|---|---|---|---|
| **Past due but not impaired** | | | |
| Less than 30 days | **69,962** | 67,976 | 38,212 |
| At least 30 days but less than 60 days | **26,590** | 1,248 | 1,287 |
| At least 60 days but less than 90 days | **268** | 511 | 116 |
| At least 90 days or more | **-** | - | - |
| Carrying amount | **96,820** | 69,735 | 39,615 |
| | | | |
| **Gross individually impaired assets [1]** | | | |
| Balance at the beginning of the period | **141,964** | 65,217 | 65,217 |
| Transfers from performing | **300** | 1,422 | 142,317 |
| Transfers to performing | **-** | (495) | (636) |
| Write-offs | **(2)** | (2,552) | (7,410) |
| Repayment | **(17,373)** | (5,187) | (7,659) |
| Sale of portfolio of impaired loans | **-** | (49,865) | (49,865) |
| Balance at the end of the period | **124,889** | 8,540 | 141,964 |
| | | | |
| **Specific provision for loan impairment** | | | |
| Balance at the beginning of the period | **40,317** | 49,533 | 49,533 |
| New and additional provisions charged to profit or loss | **2** | 22 | 40,914 |
| Provisions released during the period to profit or loss | **-** | (913) | (1,246) |
| Write-offs | **(2)** | (2,552) | (7,410) |
| Discount unwind [2] | **(3,462)** | (10) | (590) |
| Discount unwind [2] – sale of portfolio of impaired loans | **-** | (61) | (61) |
| Provisions released – sale of portfolio of impaired loans | **-** | (40,823) | (40,823) |
| Balance at the end of the period | **36,855** | 5,196 | 40,317 |
| | | | |
| **Collective provision for loan impairment** | | | |
| Balance at the beginning of the period | **8,391** | 3,817 | 3,817 |
| Additional provision charged to profit or loss | **3,045** | 981 | 5,753 |
| Provisions released during the period to profit or loss | **(2,713)** | (423) | (1,179) |
| Balance at the end of the period | **8,723** | 4,375 | 8,391 |
| | | | |
| Total provisions for loan impairment | **45,578** | 9,571 | 48,708 |

[1] Gross individually impaired assets is the pre-allowance balance of individually impaired assets. The actual impairment is reflected within the specific provision for loan impairment as doubtful debts of the gross individually impaired assets.
[2] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

| | *Banking Group* | | |
|---|---|---|---|
| | **Unaudited** | | Audited |
| | **6 months ended** | | Year ended |
| *Dollars in Thousands* | **30.06.14** | 30.06.13 | 31.12.13 |
| | | | |
| **Profit or loss charge / (credit)** | | | |
| Specific provisions for impairment against advances | **2** | 22 | 40,914 |
| Collective provisions for impairment against advances | **3,045** | 981 | 5,753 |
| Total provisions for impairment against advances | **3,047** | 1,003 | 46,667 |
| | | | |
| Specific provisions released | **-** | (913) | (1,246) |
| Collective provisions released | **(2,713)** | (423) | (1,179) |
| Total provisions released no longer required | **(2,713)** | (1,336) | (2,425) |
| | | | |
| Net increase in provisions for impairment against advances | **334** | (333) | 44,242 |
| Recoveries of amounts written off in previous period | **(89)** | (1,094) | (1,552) |
| | **245** | (1,427) | 42,690 |

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

**7. Asset quality** *(continued)*

There are no restructured assets, assets acquired through the enforcement of security or assets under administration. The aggregate amount as at 30 June 2014 of any undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individual impaired, before deducting allowances for credit impairment loss where applicable, is $21.0m (30 June 2013: Nil; 31 December 2013: $9.3million).

## 8. Additional mortgage information

The loan-to-valuation ratio is calculated as the loan value divided by the property value. The basis of calculation has been updated in the current period to use the unadjusted recorded property value as opposed to an adjusted property value used for internal purposes. Comparative data has been restated on the same basis. As a result of the restatement the 'Does not exceed 80%', 'Exceeds 80% and not 90%' and 'Exceeds 90%' exposures increased $28.2m, decreased $18.2m and decreased $10.0m, respectively, at 30 June 2013, and increased $24.0m, decreased $11.8m and decreased $12.2m, respectively, at 31 December 2013.

**Residential mortgages by loan-to-valuation ratio**

| | ***Banking Group*** | | | |
|---|---|---|---|---|
| | **Principal Amount** | | | |
| *Dollars in millions* | **Does not exceed 80% $m** | **Exceeds 80% and not 90% $m** | **Exceeds 90% $m** | **Total $m** |
| **30 June 2014 (Unaudited)** | | | | |
| Value of exposures on balance sheet | **1,076.2** | **10.9** | **1.8** | **1,088.9** |
| Value of exposures off balance sheet | **23.9** | **0.1** | **0.0** | **24.0** |
| **Total value of exposures** | **1,100.1** | **11.0** | **1.8** | **1,112.9** |
| **30 June 2013 (Unaudited)** | | | | |
| Value of exposures on balance sheet | 978.5 | 17.3 | 3.4 | 999.2 |
| Value of exposures off balance sheet | 27.8 | 0.0 | 0.0 | 27.8 |
| Total value of exposures **(Restated)** | 1,006.3 | 17.3 | 3.4 | 1,027.0 |
| **31 December 2013 (Unaudited)** | | | | |
| Value of exposures on balance sheet | 1,036.0 | 21.8 | 2.7 | 1,060.5 |
| Value of exposures off balance sheet | 25.2 | 0.0 | 0.0 | 25.2 |
| Total value of exposures **(Restated)** | 1,061.2 | 21.8 | 2.7 | 1,085.7 |

## 9. Fair value of financial instruments

**Determination of fair value of financial instruments carried at fair value**

Fair values are determined according to the following hierarchy:

*Level 1 – quoted market price*
Financial instruments with quoted prices for identical instruments in active markets.

*Level 2 –valuation technique using observable inputs*
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

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

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

*Level 3- valuation technique with significant unobservable inputs*
Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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

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

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

| | **Banking Group** Unaudited | | | |
|---|---|---|---|---|
| *Dollars in Thousands* | **30.06.14** | **30.06.14** | **30.06.14** | **30.06.14** |
| | **Level 1** | **Level 2** | **Level 3** | **TOTAL** |
| **ASSETS** | | | | |
| Debt and equity securities | **289,714** | **213,272** | **22** | **503,008** |
| Derivatives financial instruments | **-** | **149,379** | **-** | **149,379** |
| **LIABILITIES** | | | | |
| Derivatives financial instruments | **-** | **132,123** | **-** | **132,123** |

| | *Banking Group* Unaudited | | | |
|---|---|---|---|---|
| *Dollars in Thousands* | 30.06.13 | 30.06.13 | 30.06.13 | 30.06.13 |
| | Level 1 | Level 2 | Level 3 | TOTAL |
| ASSETS | | | | |
| Debt and equity securities | 262,694 | 296,175 | 22 | 558,891 |
| Derivatives financial instruments | - | 187,797 | - | 187,797 |
| LIABILITIES | | | | |
| Derivatives financial instruments | - | 168,425 | - | 168,425 |

| | *Banking Group* Audited | | | |
|---|---|---|---|---|
| *Dollars in Thousands* | 31.12.13 | 31.12.13 | 31.12.13 | 31.12.13 |
| | Level 1 | Level 2 | Level 3 | TOTAL |
| ASSETS | | | | |
| Debt and equity securities | 280,136 | 119,427 | 22 | 399,585 |
| Derivatives financial instruments | - | 146,001 | - | 146,001 |
| LIABILITIES | | | | |
| Derivatives financial instruments | - | 121,008 | - | 121,008 |

There have been no transfers between levels 1 and 2 in the period to 30 June 2014 (June 2013: none; December 2013: none). Any transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

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

**Reconciliation of fair value measurements in level 3 of the fair value hierarchy**

The following tables provide a reconciliation of the movement between opening and closing balance of level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs.

| | ***Banking Group*** **Unaudited 30.06.14** | | |
|---|---|---|---|
| *Dollars in Thousands* | **Assets Available-For-sale** | **Assets Derivatives** | **Liabilities Derivatives** |
| Balance at the beginning of the period | **22** | **-** | **-** |
| Balance at the end of the period | **22** | **-** | **-** |

| | *Banking Group* Unaudited 30.06.13 | | |
|---|---|---|---|
| *Dollars in Thousands* | Assets Available-For-sale | Assets Derivatives | Liabilities Derivatives |
| Balance at the beginning of the period | 22 | - | - |
| Balance at the end of the period | 22 | - | - |

| | *Banking Group* Audited 31.12.13 | | |
|---|---|---|---|
| *Dollars in Thousands* | Assets Available-For-sale | Assets Derivatives | Liabilities Derivatives |
| Balance at the beginning of the period | 22 | - | - |
| Balance at the end of the period | 22 | - | - |

**Sources of uncertainty for fair value measurement in level 3**

For the available-for-sale equity securities, the unobservability of valuation of certain equity shares resulted in these assets being determined as level 3. There is no quoted market price in an active market. The valuation is based on management judgement.

**Effects of changes in significant non-observable assumptions to reasonably possible alternatives**

For the available-for-sale equity securities, given that their total carrying amount at June 2014 is $22 thousand (June 2013: $22 thousand; December 2013: $22 thousand), the effect in equity arising from changes in significant non-observable assumptions is insignificant.

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

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

**Methodologies**

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

*Cash and demand balances with central banks*
For cash and short - term funds the carrying amount is equivalent to the fair value.

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

*Debt securities*
For available-for-sale securities that are quoted in active markets, fair values are determined by reference to the current quoted bid/offer price. Where quoted market prices are not available, fair value is determined with reference to quoted prices for similar instruments in active markets, or through the use of a valuation model where inputs are observable.

*Advances to customers, advances to banks, and amounts due from related parties*
Fair values of advances to customers, advances to banks, and amounts due from related parties with maturities of six months or longer have been estimated by discounting cashflows up to the next repricing date with reference to current rates at which similar loans and advances would be made to other borrowers with a similar credit rating and the same maturities. The fair values of advances to customers, advances to banks, and amounts due from related parties with maturities less than six months are approximated to be the carrying value.

*Deposits, other accounts and amounts due to related parties*
The fair values of deposits and other liabilities with maturities of less than six months are approximated to be the carrying amount. For liabilities with maturities of six months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated by reference to rates currently offered by the Banking Group for similar liabilities of similar maturities.

*Derivative financial instruments*
The fair values of exchange rate and interest rate contracts were obtained from quoted market prices or discounted cash flow models. Inputs applied in getting the fair value of derivative financial instruments are observable market-corroborated inputs which include interest rates and forward curves observable at commonly reported intervals where required.

*Other assets and other liabilities*
For other assets and other liabilities the carrying amount is considered to be the fair value.

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

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

The following tables summarise the carrying values and fair values of financial assets and liabilities in the Banking Group at the end of the current and comparative periods.

| *Dollars in Thousands* | ***Banking Group*** **Unaudited 30.06.14 Carrying Value** | **Unaudited 30.06.14 Fair Value** | *Banking Group* Unaudited 30.06.13 Carrying Value | Unaudited 30.06.13 Fair Value |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Advances to customers | **3,319,763** | **3,326,676** | 3,377,422 | 3,381,740 |
| Total financial assets not carried at fair value | **3,319,763** | **3,326,676** | 3,377,422 | 3,381,740 |
| Total financial assets whose carrying value approximates fair value | **1,735,843** | **1,735,843** | 1,532,646 | 1,532,646 |
| ***Total financial assets*** | **5,055,606** | **5,062,519** | 4,910,068 | 4,914,386 |
| Total non-financial assets | **31,282** | | 29,390 | |
| ***Total assets*** | **5,086,888** | | 4,939,458 | |
| **LIABILITIES** | | | | |
| Customer deposits | **2,993,387** | **2,995,468** | 3,192,595 | 3,195,325 |
| Debt securities | **769,868** | **769,770** | 497,215 | 499,573 |
| Amounts due to related parties | **857,874** | **858,063** | 871,945 | 871,876 |
| Total financial liabilities not carried at fair value | **4,621,129** | **4,623,301** | 4,561,755 | 4,566,774 |
| Total financial liabilities whose carrying value approximates fair value | **434,395** | **434,395** | 343,277 | 343,277 |
| ***Total financial liabilities*** | **5,055,524** | **5,057,696** | 4,905,032 | 4,910,051 |
| Total non-financial liabilities | **6,529** | | 2,920 | |
| ***Total liabilities*** | **5,062,053** | | 4,907,952 | |

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

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

| | *Banking Group* | |
|---|---|---|
| *Dollars in Thousands* | Audited 31.12.13 Carrying Value | Audited 31.12.13 Fair Value |
| **ASSETS** | | |
| Advances to customers | 3,372,765 | 3,417,340 |
| Total financial assets not carried at fair value | | |
| Total financial assets whose carrying value approximates fair value | 1,649,585 | 1,649,585 |
| ***Total financial assets*** | 5,022,350 | 5,066,925 |
| Total non-financial assets | 31,165 | |
| ***Total assets*** | 5,053,515 | |
| **LIABILITIES** | | |
| Customer deposits | 3,135,950 | 3,139,382 |
| Debt securities | 792,482 | 792,430 |
| Amounts due to related parties | 808,696 | 808,495 |
| Total financial liabilities not carried at fair value | 4,737,128 | 4,740,307 |
| Total financial liabilities whose carrying value approximates fair value | 313,429 | 313,429 |
| ***Total financial liabilities*** | 5,050,557 | 5,053,736 |
| Total non-financial liabilities | 2,657 | |
| ***Total liabilities*** | 5,053,214 | |

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

## 10. Concentrations of credit and funding risk

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

| | | *Banking Group* | |
|---|---|---|---|
| *Dollars in Thousands* | **Unaudited 30.06.14** | Unaudited 30.06.13 | Audited 31.12.13 |
| **On-balance sheet credit exposures** | | | |
| Cash and demand balances with central banks | **750,346** | 439,500 | 763,286 |
| Advances to banks | **15,387** | 14,016 | 15,179 |
| Debt and equity securities | **503,008** | 558,891 | 399,585 |
| Advances to customers | **3,319,763** | 3,377,422 | 3,372,765 |
| Amounts due from related parties | **300,736** | 313,776 | 308,868 |
| Other assets | **16,987** | 18,667 | 16,666 |
| | **4,906,227** | 4,722,272 | 4,876,349 |
| **Off-balance sheet credit exposures and derivatives** | **2,242,173** | 2,224,557 | 2,157,517 |
| Total credit exposures | **7,148,400** | 6,946,829 | 7,033,866 |

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 | **1,269,869** | 1,192,283 | 1,266,002 |
| Commercial and industrial | **2,188,098** | 2,547,005 | 2,356,767 |
| Commercial real estate and construction | **539,730** | 559,419 | 530,449 |
| Banks and financial institutions | **1,921,712** | 1,800,050 | 1,992,149 |
| Agriculture, forestry and mining | **365,608** | 231,665 | 164,023 |
| Other | **863,383** | 616,407 | 724,476 |
| | **7,148,400** | 6,946,829 | 7,033,866 |

**Concentrations of credit risk by geographical area**

| | | | |
|---|---|---|---|
| New Zealand | **6,125,404** | 5,897,853 | 5,973,892 |
| Hong Kong | **312,650** | 324,977 | 284,724 |
| Other Overseas | **710,346** | 723,999 | 775,250 |
| | **7,148,400** | 6,946,829 | 7,033,866 |

**Concentration of Credit Exposures to Individual counterparties**

The Banking Group has no credit exposures equal to or in excess of 10% of HBAP Group's equity, during the current reporting period and the previous corresponding periods. These exposures 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)*

## 10. Concentrations of credit and funding risk *(continued)*

| | Banking Group | | |
|---|---|---|---|
| *Dollars in Thousands* | **Unaudited 30.06.14** | Unaudited 30.06.13 | Audited 31.12.13 |
| **Concentrations of funding** | | | |
| **Concentrations of funding by product** | | | |
| Deposits by banks | **271,057** | 147,276 | 157,678 |
| Customer deposits | **2,993,387** | 3,192,595 | 3,135,950 |
| Debt securities | **769,868** | 497,215 | 792,482 |
| Amounts due to related parties | **857,874** | 871,945 | 808,696 |
| | **4,892,186** | 4,709,031 | 4,894,806 |
| **Concentrations of funding by industry** | | | |
| Agriculture, forestry, fishing and mining | **57,774** | 91,452 | 63,842 |
| Manufacturing | **215,332** | 170,127 | 192,601 |
| Electricity, gas and water | **978** | 391 | 376 |
| Wholesale and retail trade | **101,537** | 130,601 | 132,455 |
| Accommodation and restaurants | **29,962** | 27,091 | 31,339 |
| Banking and finance | **2,154,813** | 1,865,307 | 2,113,868 |
| Property and business services | **276,653** | 320,018 | 268,524 |
| Local authorities | **1,872** | 21,470 | 5,960 |
| Individual | **1,864,301** | 1,980,363 | 1,954,688 |
| Other | **188,964** | 102,211 | 131,153 |
| | **4,892,186** | 4,709,031 | 4,894,806 |
| **Concentrations of funding by geographical area** | | | |
| New Zealand | **2,674,530** | 2,339,146 | 2,606,314 |
| Australia | **56,197** | 67,331 | 51,009 |
| China | **338,216** | 376,381 | 374,640 |
| Great Britain | **226,989** | 157,884 | 166,401 |
| Hong Kong | **930,922** | 971,625 | 925,343 |
| Malaysia | **39,062** | 44,463 | 55,278 |
| Singapore | **80,679** | 55,296 | 68,052 |
| Taiwan | **57,656** | 60,341 | 64,372 |
| Other Overseas | **487,935** | 636,564 | 583,397 |
| | **4,892,186** | 4,709,031 | 4,894,806 |

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

## 11. 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.

| | Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in Millions* | *Up to 3 months* | *Over 3 months and up to 6 months* | *Over 6 months and up to 1 year* | *Over 1 year and up to 2 years* | *Over 2 years* | *Total interest bearing* | *Non interest bearing* | *Total* |
| **30 June 2014 (Unaudited)** | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Cash and demand balances with central banks | **750** | **-** | **-** | **-** | **-** | **750** | **-** | **750** |
| Advances to banks | **15** | **-** | **-** | **-** | **-** | **15** | **-** | **15** |
| Debt and equity securities | **110** | **151** | **131** | **15** | **96** | **503** | **-** | **503** |
| Derivative financial instruments | **-** | **-** | **-** | **-** | **-** | **-** | **149** | **149** |
| Advances to customers | **2,547** | **179** | **165** | **298** | **131** | **3,320** | **-** | **3,320** |
| Amounts due from related parties | **297** | **-** | **-** | **-** | **-** | **297** | **4** | **301** |
| Other assets | **-** | **-** | **-** | **-** | **-** | **-** | **17** | **17** |
| Deferred taxation | **-** | **-** | **-** | **-** | **-** | **-** | **11** | **11** |
| Intangible assets | **-** | **-** | **-** | **-** | **-** | **-** | **19** | **19** |
| Fixed assets | **-** | **-** | **-** | **-** | **-** | **-** | **1** | **1** |
| *Total assets* | **3,719** | **330** | **296** | **313** | **227** | **4,885** | **201** | **5,086** |
| ***Liabilities*** | | | | | | | | |
| Deposits by banks | **270** | **1** | **-** | **-** | **-** | **271** | **-** | **271** |
| Derivative financial instruments | **-** | **-** | **-** | **-** | **-** | **-** | **132** | **132** |
| Customer deposits | **2,361** | **338** | **194** | **47** | **31** | **2,971** | **22** | **2,993** |
| Debt securities | **706** | **64** | **-** | **-** | **-** | **770** | **-** | **770** |
| Amounts due to related parties | **634** | **-** | **-** | **-** | **11** | **645** | **213** | **858** |
| Other liabilities | **-** | **-** | **-** | **-** | **-** | **-** | **34** | **34** |
| Current taxation | **-** | **-** | **-** | **-** | **-** | **-** | **3** | **3** |
| *Total liabilities* | **3,971** | **403** | **194** | **47** | **42** | **4,657** | **404** | **5,061** |
| ***Off-balance sheet financial instruments*** | | | | | | | | |
| Net notional interest rate contracts | **199** | **169** | **(35)** | **(198)** | **(135)** | **-** | **-** | **-** |
| **30 June 2013 (Unaudited)** | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Cash and demand balances with central banks | 439 | - | - | - | - | 439 | 1 | 440 |
| Advances to banks | 14 | - | - | - | - | 14 | - | 14 |
| Debt and equity securities | 247 | 50 | - | 190 | 72 | 559 | - | 559 |
| Derivative financial instruments | - | - | - | - | - | - | 188 | 188 |
| Advances to customers | 2,323 | 587 | 152 | 113 | 202 | 3,377 | - | 3,377 |
| Amounts due from related parties | 311 | - | - | - | - | 311 | 3 | 314 |
| Other assets | - | - | - | - | - | - | 19 | 19 |
| Current taxation | - | - | - | - | - | - | 7 | 7 |
| Intangible assets | - | - | - | - | - | - | 21 | 21 |
| Fixed assets | - | - | - | - | - | - | 1 | 1 |
| *Total assets* | 3,334 | 637 | 152 | 303 | 274 | 4,700 | 240 | 4,940 |
| ***Liabilities*** | | | | | | | | |
| Deposits by banks | 146 | 1 | - | - | - | 147 | - | 147 |
| Derivative financial instruments | - | - | - | - | - | - | 168 | 168 |
| Customer deposits | 2,510 | 361 | 223 | 41 | 38 | 3,173 | 20 | 3,193 |
| Debt securities | 418 | 79 | - | - | - | 497 | - | 497 |
| Amounts due to related parties | 585 | - | 84 | - | - | 669 | 203 | 872 |
| Other liabilities | - | - | - | - | - | - | 31 | 31 |
| Deferred taxation | - | - | - | - | - | - | - | - |
| *Total liabilities* | 3,659 | 441 | 307 | 41 | 38 | 4,486 | 422 | 4,908 |
| ***Off-balance sheet financial instruments*** | | | | | | | | |
| Net notional interest rate contracts | 283 | (15) | 100 | (155) | (213) | - | - | - |

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

## 11. Interest rate risk – repricing schedule *(continued)*

| *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* |
|---|---|---|---|---|---|---|---|---|
| | *Banking Group* | | | | | | | |
| **31 December 2013 (Audited)** | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Cash and demand balances with central banks | 763 | - | - | - | - | 763 | - | 763 |
| Advances to banks | 15 | - | - | - | - | 15 | - | 15 |
| Debt and equity securities | 101 | - | 83 | 136 | 80 | 400 | - | 400 |
| Derivative financial instruments | - | - | - | - | - | - | 146 | 146 |
| Advances to customers | 2,537 | 185 | 243 | 140 | 268 | 3,373 | - | 3,373 |
| Amounts due from related parties | 283 | - | - | - | - | 283 | 26 | 309 |
| Other assets | - | - | - | - | - | - | 17 | 17 |
| Deferred taxation | - | - | - | - | - | - | 9 | 9 |
| Current taxation | - | - | - | - | - | - | 1 | 1 |
| Intangible assets | - | - | - | - | - | - | 20 | 20 |
| Fixed assets | - | - | - | - | - | - | 1 | 1 |
| *Total assets* | 3,699 | 185 | 326 | 276 | 348 | 4,834 | 220 | 5,054 |
| ***Liabilities*** | | | | | | | | |
| Deposits by banks | 157 | 1 | - | - | - | 158 | - | 158 |
| Derivative financial instruments | - | - | - | - | - | - | 121 | 121 |
| Customer deposits | 2,483 | 395 | 161 | 42 | 33 | 3,114 | 22 | 3,136 |
| Debt securities | 593 | 155 | 44 | - | - | 792 | - | 792 |
| Amounts due to related parties | 591 | - | - | - | 11 | 602 | 207 | 809 |
| Other liabilities | - | - | - | - | - | - | 37 | 37 |
| Current taxation | - | - | - | - | - | - | - | - |
| *Total liabilities* | 3,824 | 551 | 205 | 42 | 44 | 4,666 | 387 | 5,053 |
| ***Off-balance sheet financial instruments*** | | | | | | | | |
| Net notional interest rate contracts | 204 | - | 169 | (135) | (238) | - | - | - |

## 12. Liquidity risk management

Liquidity risk is the risk that the Banking Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Liquid assets are assets which are readily convertible to cash to meet the Banking Group's liquidity requirement. Liquid assets consist of demand balances with the central bank, treasury bills, government and local government bonds and registered certificates of deposits issued by other banks. The Banking Group holds the following liquid assets in order to manage its liquidity risk:

| *Dollars in Thousands* | **Unaudited 30.06.14** | Unaudited 30.06.13 | Audited 31.12.13 |
|---|---|---|---|
| | *Banking Group* | | |
| Demand balances with the central bank | **749,984** | 438,249 | 762,856 |
| Available-for-sale debt securities and treasury bills | **502,986** | 558,869 | 399,585 |
| | **1,252,970** | 997,118 | 1,162,441 |

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

## 12. 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.

| | Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *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 2014 (Unaudited)** | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Cash and demand balances with central banks | **750** | - | - | - | - | - | - | **750** |
| Advances to banks | **15** | - | - | - | - | - | - | **15** |
| Debt and equity securities | **-** | **110** | **-** | **282** | **111** | **-** | **-** | **503** |
| Advances to customers | **248** | **136** | **228** | **379** | **1,323** | **1,006** | **-** | **3,320** |
| Amounts due from related parties | **8** | **293** | **-** | - | - | - | - | **301** |
| Other assets | **-** | **16** | **1** | **-** | **-** | **-** | **-** | **17** |
| Deferred taxation | - | - | - | - | - | - | **11** | **11** |
| Intangible assets | **-** | **-** | **-** | **1** | **4** | **-** | **14** | **19** |
| Fixed assets | **-** | **-** | **-** | **-** | **-** | **-** | **1** | **1** |
| *Total* | **1,021** | **555** | **229** | **662** | **1,438** | **1,006** | **26** | **4,937** |
| Derivative financial instruments – inflow | **-** | **7** | **14** | **430** | **1,480** | **1,681** | **-** | **3,612** |
| Derivative financial instruments – (outflow) | **-** | **-** | **-** | **(382)** | **(1,429)** | **(1,652)** | **-** | **(3,463)** |
| Derivative financial instruments - assets | **-** | **7** | **14** | **48** | **51** | **29** | **-** | **149** |
| ***Liabilities*** | | | | | | | | |
| Deposits by banks | **267** | **1** | **2** | **1** | **-** | **-** | **-** | **271** |
| Customer deposits | **1,623** | **376** | **381** | **517** | **78** | **18** | **-** | **2,993** |
| Debt securities | **-** | **188** | **118** | **64** | **400** | **-** | **-** | **770** |
| Amounts due to related parties | **287** | **146** | **214** | **200** | **11** | **-** | **-** | **858** |
| Other liabilities | **1** | **23** | **7** | **3** | **-** | **-** | **-** | **34** |
| Current taxation | - | - | **3** | - | - | - | **-** | **3** |
| *Total* | **2,178** | **734** | **725** | **785** | **489** | **18** | **-** | **4,929** |
| Derivative financial instruments – (inflow) | **-** | **-** | **-** | **(382)** | **(1,428)** | **(1,651)** | **-** | **(3,461)** |
| Derivative financial instruments – outflow | **-** | **7** | **11** | **425** | **1,472** | **1,678** | **-** | **3,593** |
| Derivative financial instruments – liabilities | **-** | **7** | **11** | **43** | **44** | **27** | **-** | **132** |
| *Net assets* | **(1,157)** | **(179)** | **(493)** | **(118)** | **956** | **990** | **26** | **25** |

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

## 12. Liquidity risk management *(continued)*

### Maturity Analysis *(continued)*

| | Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *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 2013 (Unaudited)** | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Cash and demand balances with central banks | 440 | - | - | - | - | - | - | 440 |
| Advances to banks | 14 | - | - | - | - | - | - | 14 |
| Debt and equity securities | - | 211 | 20 | 58 | 270 | - | - | 559 |
| Advances to customers | 188 | 128 | 341 | 523 | 1,249 | 948 | - | 3,377 |
| Amounts due from related parties | 9 | 296 | 9 | - | - | - | - | 314 |
| Other assets | 1 | 18 | - | - | - | - | - | 19 |
| Current taxation | - | - | - | - | - | - | 7 | 7 |
| Intangible assets | - | - | - | 1 | 6 | - | 14 | 21 |
| Fixed assets | - | - | - | - | - | - | 1 | 1 |
| *Total* | 652 | 653 | 370 | 582 | 1,525 | 948 | 22 | 4,752 |
| Derivative financial instruments – inflow | - | 388 | 453 | 48 | 1,392 | 582 | - | 2,863 |
| Derivative financial instruments – (outflow) | - | (345) | (422) | - | (1,342) | (566) | - | (2,675) |
| Derivative financial instruments - assets | - | 43 | 31 | 48 | 50 | 16 | - | 188 |
| ***Liabilities*** | | | | | | | | |
| Deposits by banks | 143 | 1 | 2 | 1 | - | - | - | 147 |
| Customer deposits | 1,583 | 520 | 425 | 568 | 79 | 18 | - | 3,193 |
| Debt securities | - | 134 | 84 | 79 | 200 | - | - | 497 |
| Amounts due to related parties | 267 | 64 | 136 | 205 | 200 | - | - | 872 |
| Other liabilities | 1 | 24 | 6 | - | - | - | - | 31 |
| Deferred taxation | - | - | - | - | - | - | - | - |
| *Total* | 1,994 | 743 | 653 | 853 | 479 | 18 | - | 4,740 |
| Derivative financial instruments – (inflow) | - | (345) | (422) | - | (1,342) | (566) | - | (2,675) |
| Derivative financial instruments – outflow | - | 385 | 452 | 43 | 1,382 | 581 | - | 2,843 |
| Derivative financial instruments – liabilities | - | 40 | 30 | 43 | 40 | 15 | - | 168 |
| *Net assets* | (1,342) | (87) | (282) | (266) | 1,056 | 931 | 22 | 32 |

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

## 12. Liquidity risk management *(continued)*

### Maturity Analysis *(continued)*

| | Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in Millions* | *On Demand* | *0-1 month* | *1-3 months* | *3-12 months* | *1-5 years* | *Over 5 years* | *No specific maturity* | *Total* |
| **31 December 2013 (Audited)** | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Cash and demand balances with central banks | 763 | - | - | - | - | - | - | 763 |
| Advances to banks | 15 | - | - | - | - | - | - | 15 |
| Debt and equity securities | - | 101 | - | 83 | 216 | - | - | 400 |
| Advances to customers | 196 | 108 | 175 | 592 | 1,297 | 1,005 | - | 3,373 |
| Amounts due from related parties | 52 | 243 | 14 | - | - | - | - | 309 |
| Other assets | - | 13 | 2 | 2 | - | - | - | 17 |
| Deferred taxation | - | - | - | - | - | - | 9 | 9 |
| Current tax | - | - | - | 1 | - | - | - | 1 |
| Intangible assets | - | - | - | 1 | 5 | - | 14 | 20 |
| Fixed assets | - | - | - | - | - | - | 1 | 1 |
| *Total* | 1,026 | 465 | 191 | 679 | 1,518 | 1,005 | 24 | 4,908 |
| Derivative financial instruments – inflow | - | 22 | 23 | 46 | 1,589 | 1,667 | - | 3,347 |
| Derivative financial instruments – (outflow) | - | - | - | - | (1,548) | (1,653) | - | (3,201) |
| Derivative financial instruments - assets | - | 22 | 23 | 46 | 41 | 14 | - | 146 |
| ***Liabilities*** | | | | | | | | |
| Deposits by banks | 154 | 1 | 2 | 1 | | | | 158 |
| Customer deposits | 1,733 | 342 | 428 | 541 | 75 | 17 | - | 3,136 |
| Debt securities | - | 114 | 79 | 199 | 400 | - | - | 792 |
| Amounts due to related parties | 314 | 121 | 163 | 200 | 11 | - | - | 809 |
| Other liabilities | 1 | 24 | 11 | - | 1 | - | - | 37 |
| Current taxation | - | - | - | - | - | - | - | - |
| *Total* | 2,202 | 602 | 683 | 941 | 487 | 17 | - | 4,932 |
| Derivative financial instruments – (inflow) | - | - | - | - | (1,548) | (1,651) | - | (3,199) |
| Derivative financial instruments – outflow | - | 18 | 19 | 41 | 1,578 | 1,664 | - | 3,320 |
| Derivative financial instruments – liabilities | - | 18 | 19 | 41 | 30 | 13 | - | 121 |
| *Net assets* | (1,176) | (133) | (488) | (257) | 1,042 | 989 | 24 | 1 |

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

## 12. 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.

| | *Banking Group* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *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 2014 (Unaudited)** | | | | | | | | |
| ***Financial Assets*** | | | | | | | | |
| Cash and demand balances with central banks | **750** | **-** | **-** | **-** | **-** | **-** | **-** | **750** |
| Advances to banks | **15** | **-** | **-** | **-** | **-** | **-** | **-** | **15** |
| Debt and equity securities | **-** | **110** | **2** | **297** | **121** | **-** | **-** | **530** |
| Advances to customers | **248** | **149** | **252** | **480** | **1,623** | **1,814** | **-** | **4,566** |
| Amounts due from related parties | **8** | **293** | **-** | **-** | **-** | **-** | **-** | **301** |
| Other assets | **-** | **16** | **1** | **-** | **-** | **-** | **-** | **17** |
| Total non-derivative financial assets | **1,021** | **568** | **255** | **777** | **1,744** | **1,814** | **-** | **6,179** |
| Derivative financial instruments – held for hedging purposes (net settled) Inflow / (outflow) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total undiscounted financial assets** | **1,021** | **568** | **255** | **777** | **1,744** | **1,814** | **-** | **6,179** |
| ***Financial Liabilities*** | | | | | | | | |
| Deposits by banks | **267** | **1** | **2** | **1** | **-** | **-** | **-** | **271** |
| Customer deposits | **1,623** | **379** | **387** | **534** | **91** | **18** | **-** | **3,032** |
| Debt securities | **-** | **190** | **122** | **78** | **440** | **-** | **-** | **830** |
| Amounts due to related parties | **287** | **147** | **215** | **202** | **11** | **-** | **-** | **862** |
| Other liabilities | **1** | **23** | **7** | **3** | **-** | **-** | **-** | **34** |
| Total non-derivative financial liabilities | **2,178** | **740** | **733** | **818** | **542** | **18** | **-** | **5,029** |
| Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total undiscounted financial liabilities** | **2178** | **740** | **733** | **818** | **542** | **18** | **-** | **5,029** |
| ***Undrawn loan commitments*** | **563** | **-** | **1,106** | **-** | **-** | **-** | **-** | **1,669** |

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

## 12. Liquidity risk management *(continued)*

### Maturity Analysis – undiscounted cashflows basis *(continued)*

| | Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *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 2013 (Unaudited)** | | | | | | | | |
| ***Financial Assets*** | | | | | | | | |
| Cash and demand balances with central banks | 440 | - | - | - | - | - | - | 440 |
| Advances to banks | 14 | - | - | - | - | - | - | 14 |
| Debt and equity securities | - | 211 | 21 | 66 | 296 | - | - | 594 |
| Advances to customers | 188 | 140 | 363 | 612 | 1,531 | 1,683 | - | 4,517 |
| Amounts due from related parties | 9 | 296 | 9 | - | - | - | - | 314 |
| Other assets | 1 | 18 | - | - | - | - | - | 19 |
| Total non-derivative financial assets | 652 | 665 | 393 | 678 | 1,827 | 1,683 | - | 5,898 |
| Derivative financial instruments – held for hedging purposes (net settled) | | | | | | | | |
| Inflow / (outflow) | - | - | - | (1) | (1) | - | - | (2) |
| **Total undiscounted financial assets** | 652 | 665 | 393 | 677 | 1,826 | 1,683 | - | 5,896 |
| ***Financial Liabilities*** | | | | | | | | |
| Deposits by banks | 143 | 1 | 2 | 1 | - | - | - | 147 |
| Customer deposits | 1,583 | 523 | 431 | 586 | 93 | 19 | - | 3,235 |
| Debt securities | - | 136 | 85 | 85 | 216 | - | - | 522 |
| Amounts due to related parties | 267 | 65 | 139 | 210 | 202 | - | - | 883 |
| Other liabilities | 1 | 24 | 6 | - | - | - | - | 31 |
| Total non-derivative financial liabilities | 1,994 | 749 | 663 | 882 | 511 | 19 | - | 4,818 |
| Derivative financial instruments – held for hedging purposes (net settled) | | | | | | | | |
| (Inflow) / outflow | - | - | - | - | (1) | - | - | (1) |
| **Total undiscounted financial liabilities** | 1,994 | 749 | 663 | 882 | 510 | 19 | - | 4,817 |
| ***Undrawn loan commitments*** | 583 | - | 999 | - | - | - | - | 1,582 |

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

## 12. Liquidity risk management *(continued)*

### Maturity Analysis – undiscounted cashflows basis *(continued)*

| | Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in Millions* | *On Demand* | *0-1 month* | *1-3 months* | *3-12 months* | *1-5 years* | *Over 5 years* | *No specific maturity* | *Total* |
| **31 December 2013 (Audited)** | | | | | | | | |
| ***Financial Assets*** | | | | | | | | |
| Cash and demand balances with central banks | 763 | - | - | - | - | - | - | 763 |
| Advances to banks | 15 | - | - | - | - | - | - | 15 |
| Debt and equity securities | - | 101 | 1 | 97 | 227 | - | - | 426 |
| Advances to customers | 196 | 120 | 198 | 691 | 1,586 | 1,767 | - | 4,558 |
| Amounts due from related parties | 52 | 243 | 14 | - | - | - | - | 309 |
| Other assets | - | 13 | 2 | 2 | - | - | - | 17 |
| Total non-derivative financial assets | 1,026 | 477 | 215 | 790 | 1,813 | 1,767 | - | 6,088 |
| Derivative financial instruments – held for hedging purposes (net settled) | | | | | | | | |
| Inflow / (outflow) | - | - | - | - | (1) | - | - | (1) |
| **Total undiscounted financial assets** | 1,026 | 477 | 215 | 790 | 1,812 | 1,767 | - | 6,087 |
| ***Financial Liabilities*** | | | | | | | | |
| Deposits by banks | 154 | 1 | 2 | 1 | - | - | - | 158 |
| Customer deposits | 1,733 | 344 | 435 | 557 | 89 | 17 | - | 3,175 |
| Debt securities | - | 114 | 83 | 213 | 440 | - | - | 850 |
| Amounts due to related parties | 314 | 121 | 164 | 204 | 11 | - | - | 814 |
| Other liabilities | 1 | 24 | 11 | - | 1 | - | - | 37 |
| Total non-derivative financial liabilities | 2,202 | 604 | 695 | 975 | 541 | 17 | - | 5,034 |
| Derivative financial instruments – held for hedging purposes (net settled) | | | | | | | | |
| (Inflow) / outflow | - | - | - | 1 | 3 | - | - | 4 |
| **Total undiscounted financial liabilities** | 2,202 | 604 | 695 | 976 | 544 | 17 | - | 5,039 |
| ***Undrawn loan commitments*** | 577 | - | 996 | - | - | - | - | 1,553 |

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

## 13. Market risk exposures

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

The period end exposure is the exposure as at the end of the period reported. The peak exposure is the peak end-of-day market risk exposure over the half year accounting period at the close of each business day. The peak is calculated separately for each category of exposure and may not have occurred at the same time.

| | ***Banking Group*** | |
|---|---|---|
| *Dollars in Millions* | *Implied risk weighted exposure* | *Notional capital charge* |
| ***Exposure at 30 June 2014 (Unaudited)*** | | |
| Interest rate risk | **22.75** | **1.82** |
| Foreign currency risk | **0.38** | **0.03** |
| Equity risk | **-** | **-** |
| ***Peak exposure period 1 January 2014 to 30 June 2014 (Unaudited)*** | | |
| Interest rate risk | **85.63** | **6.85** |
| Foreign currency risk | **0.75** | **0.06** |
| Equity risk | **-** | **-** |
| ***Exposure at 30 June 2013 (Unaudited)*** | | |
| Interest rate risk | 15.75 | 1.26 |
| Foreign currency risk | 0.38 | 0.03 |
| Equity risk | - | - |
| ***Peak exposure period 1 January 2013 to 30 June 2013 (Unaudited)*** | | |
| Interest rate risk | 92.13 | 7.37 |
| Foreign currency risk | 2.25 | 0.18 |
| Equity risk | - | - |
| ***Exposure at 31 December 2013 (Unaudited)*** | | |
| Interest rate risk | 44.13 | 3.53 |
| Foreign currency risk | 0.13 | 0.01 |
| Equity risk | - | - |
| ***Peak exposure period 1 July 2013 to 31 December 2013 (Unaudited)*** | | |
| Interest rate risk | 49.38 | 3.95 |
| Foreign currency risk | 1.88 | 0.15 |
| Equity risk | - | - |

## 14. 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.

| | *Banking Group* | | |
|---|---|---|---|
| *Dollars in Thousands* | **Unaudited 30.06.14** | Unaudited 30.06.13 | Audited 31.12.13 |
| Direct credit substitutes | **48,467** | 64,906 | 53,264 |
| Transaction related contingent items | **238,548** | 275,382 | 252,154 |
| Trade related contingent items | **136,830** | 114,708 | 132,773 |
| Commitments, maturity one year or more | **1,119,555** | 978,520 | 922,668 |
| Commitments, maturity up to one year | **549,394** | 603,244 | 650,657 |
| | **2,092,794** | 2,036,760 | 2,011,516 |
| **Capital commitments** | | | |
| Contracted expenditure | **-** | 290 | 80 |

## 15. Insurance and non-financial activities

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

## 16. Subsequent events

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

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

**17. Profitability, size and asset quality of HBAP Group**

| *Dollars in HK$ millions* | **Unaudited 6 months ended 30.06.14** | Unaudited 6 months ended 30.06.13 | Audited 12 months ended 31.12.13 |
|---|---|---|---|
| **Profitability** | | | |
| Net profit after tax | **49,904** | 87,503 | 129,055 |
| Net profit after tax over the previous year as a percentage of average total assets | **1.4%** | 2.2% | 2.1% |
| **Size** | | | |
| Total assets | **6,765,663** | 5,981,060 | 6,439,355 |
| Percentage increase in total assets over the previous 12 month period | **13.1%** | 3.8% | 6.2% |
| **Asset quality** | | | |
| Individually impaired assets | **Not available *** | 10,925 | 11,795 |
| Individual impairment provision against advances to customers | **(5,051)** | (4,785) | (5,007) |
| Collective impairment provision against advances to customers | **(4,542)** | (4,238) | (4,494) |
| Individually impaired assets / total assets | **Not available *** | 0.2% | 0.2% |
| Individual impairment provision / individually impaired assets | **Not available *** | 43.8% | 42.5% |

* At the date of signing this disclosure statement, the amount for individually impaired assets of HBAP Group as at 30 June 2014 was not publicly available.

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

## 18. 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 to calculate its credit risk for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to determine credit risk for its banking book securitisation exposures. For market risk, HBAP Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate exposures, foreign exchange (including gold) exposures and equity exposures. HBAP Group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. HBAP Group uses the standardised (market risk) approach for calculating other market risk positions as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The capital requirements of HKMA are at least equal to those specified under the Basel framework ("Basel III"). HBAP Group exceeds the minimum capital ratio requirements as specified by the HKMA as at 30 June 2014, 31 December 2013 and 30 June 2013.

The capital adequacy disclosure made by the HBAP Group can be found in the Annual Report and Accounts at this website, http://www.hsbc.com.hk/1/2/about/financial-information/financial-reports for 2013, and http://www.hsbc.com/investor-relations/financial-and-regulatory-reports for 2014.

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

| | **Unaudited 30.06.14** | Unaudited 30.06.13 | Unaudited 31.12.13 |
|---|---|---|---|
| **Basel III Capital Ratios** | | | |
| Common Equity Tier 1 (CET1) capital | **13.5%** | 14.2% | 14.1% |
| Tier 1 capital | **13.5%** | 14.2% | 14.1% |
| Total capital | **15.2%** | 15.5% | 15.2% |

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

# Directors’ and New Zealand Chief Executive Officer’s Statements

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

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

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

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

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

over the six months ended 30 June 2014.

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***

26 August 2014

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 10 to 40 of the condensed 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 2014 (as amended) (the 'Order') and the supplementary information prescribed in Schedules 5, 7, 9, 10, 12 and 14 of the Order. The condensed 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 2014.

**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 condensed interim financial statements prepared in accordance with Clause 26 of the Order and NZ IAS 34 *Interim Financial Reporting* ("NZ IAS 34"). 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.

**Our responsibilities**

We are responsible for reviewing the condensed 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 condensed interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34.

We are responsible for reviewing the supplementary information disclosed under Schedules 5, 7, 10, 12 and 14 of the Order, 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 all material respects, 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 under Schedule 9 is not, in all material respects, prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

KPMG

## 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 financial statements audits, regulatory assurance services, trust deed reporting, reporting on custodial services and taxation services. Subject to certain restrictions, 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. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationships with, or interest in, the Banking Group.

## Review opinion

We have examined the condensed 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 condensed interim financial statements on pages 10 to 40 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34;

- the supplementary information that is required to be disclosed under Schedules 5, 7, 10, 12 and 14 of the Order does not fairly state, in all material respects, 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 (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

Our review was completed on 26 August 2014 and our opinion is expressed as at that date.

KPMG

Auckland

HSBC