

The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

31 March 2012

HSBC 

Disclosure Statement For the Three Months Ended 31 March 2012

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General Disclosures

Registered Bank

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

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

New Zealand Branch

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

New Zealand Head Office:

1 Queen Street
Auckland
New Zealand

New Zealand Banking Group

The New Zealand Banking Group (“Banking Group”) is the New Zealand operations of HBAP and all New Zealand incorporated subsidiaries of HBAP and controlled special purpose entities. The entities that have been considered for aggregation to form the Banking Group are detailed in the Statement of Accounting Policies.

Overseas Banking Group

The Overseas Banking Group (“HBAP Group”) includes all entities consolidated for the purposes of public reporting of Group financial statements in Hong Kong including HBAP and its subsidiary and associated companies.

Ultimate Holding Company

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

Access to parental disclosures

The most recent publicly available financial statements of HBAP Group and HSBC Holdings plc can be found at HBAP’s website, www.hsbc.com.hk under About HSBC, Financial Information, Financial Reports.

Ranking of Local Creditors in a Winding-up

Under Section 265(1) (db) of the Companies Ordinance of the Hong Kong SAR which HBAP is subject to, in the event of a winding up of HBAP, there shall be paid in priority to all other unsecured debts the aggregate amount held on deposit, up to a maximum of HKD100,000, to each depositor and that this Section has no geographic limitation. Save as aforesaid, the Directors believe that no other material legislative or regulatory restrictions exist which subordinate the claims of any class of the Banking Group’s unsecured creditors on the global assets of HBAP to those of any other class of unsecured creditors of HBAP, in a winding up of HBAP.

Guarantee Arrangements

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

Government Guarantee

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

General Disclosures *(continued)*

Other Material Matters

There are no material matters that, if disclosed, would adversely effect the decision of a person to subscribe for Debt Securities of which HBAP and the Banking Group is the issuer.

Pending Proceedings and Arbitration

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

Auditors

New Zealand Banking Group

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland
New Zealand

Overseas Banking Group

KPMG
8th Floor
Prince's Building
10 Chater Road
Hong Kong SAR

New Zealand Chief Executive Officer/Responsible Person

The New Zealand Chief Executive Officer, Noel Gerard McNamara, has been authorised in writing by each Director named below, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this Disclosure Statement on the Directors' behalf. Accordingly, Noel Gerard McNamara is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2012.

Noel Gerard McNamara

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

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

Dealings with Responsible Person

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

Board of Directors of HBAP

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

Stuart Thomson Gulliver (Chairman)

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

Dr William Fung Kwok Lun, SBS, OBE (Non-Executive Deputy Chairman)

BSE, Princeton University, 1970 and MBA, Harvard Graduate School of Business, 1972
Honorary Doctorate of Business Administration, Hong Kong University of Science & Technology, 1999
Executive Deputy Chairman, Li & Fung Limited

Laura Cha May Lung, GBS (Non-Executive Deputy Chairman)

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

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

Peter Wong Tung Shun (Chief Executive)

Bachelor of Arts, Indiana University, 1974; Master of Business Administration, Indiana University, 1976
Master of Science, Indiana University, 1978

Executive Director, Hong Kong and Mainland China, The Hongkong and Shanghai Banking Corporation Limited

Dr Raymond Ch'ien Kuo Fung, GBS, CBE

B.A., Rockford College, 1973; Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania, 1976 and 1978

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

* **Naina Lal Kidwai**

Bachelor of Arts degree (Honours Course) in Economics, Delhi University, examined in 1977, certificate awarded 4 March 1978; Masters in Business Administration, Harvard University, 1982

Group General Manager and Country Head, HSBC India

Rose Lee Wai Mun

Bachelor of Business Administration, University of Hawaii, 1977

Vice-Chairman and Chief Executive, Hang Seng Bank Limited

Victor Li Tzar Kuoi

B.Sc. and M.Sc., Stanford University, 1986

Managing Director and Deputy Chairman, Cheung Kong (Holdings) Limited

* **Zia Mody**

Master of Laws, Harvard University, 1979; Bachelor of Arts (Law), Cambridge University, 1978

Partner, AZB & Partners

Christopher Dale Pratt

M A Modern History, Oxford University, 1978

Chairman, John Swire & Sons (H.K.) Limited

Peter James Holland Riley

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

Group Finance Director of Jardine Matheson Holdings Ltd

* **Andreas Sohmen-Pao**

First Class Honors Degree in Oriental Studies, Oxford University, 1994; Master in Business Administration with distinction, Harvard University Graduate School of Business, 1997; Master of Arts, Oxford University, 2000

Chief Executive Officer, BW Maritime Pte Ltd

Thomas Brian Stevenson, SBS

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

Chartered Accountant

Paul Anthony Thurston

Bachelor of Arts, Economics and Business Studies, University of Sheffield, 1975; Associate Member, Chartered Institute of Bankers, 1979; and Fellow, Ifs School of Finance, 2009

Group Managing Director and Chief Executive, Retail Banking and Wealth Management, HSBC Holdings plc

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

Dr Patrick Wang Shui Chung

B.Sc. and M.Sc., in Electrical Engineering, Purdue University, Indiana USA, 1972.

Honorary Doctorate of Engineering, Purdue University in Indiana, USA, 2004.

Chairman and Chief Executive Officer, Johnson Electric Holdings Limited

Dr Rosanna Wong Yick-Ming, DBE

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

Executive Director, The Hong Kong Federation of Youth Groups

Marjorie Yang Mun Tak

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

Chairman, Esquel Holdings Inc.

Country of Residence

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

Communications addressed to the Directors may be sent to:

c/o The Hongkong and Shanghai Banking Corporation Limited

GPO Box 64

Hong Kong

Change in Board of Directors for HBAP

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

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

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.	Aa1 (stable outlook)	Not changed	-
Standard & Poor's Corporation	AA- (stable outlook)	AA (stable outlook)	29 November 2011
Fitch IBCA Inc.	AA (negative outlook)	AA (stable outlook)	2 March 2012

Conditions of Registration

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

These conditions of registration apply on and after 30 September 2011.

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

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

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

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

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

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

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

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practices; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration, –

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

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

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

Conditions of Registration *(continued)*

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:
 - (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (ii) the Reserve Bank has advised that it has no objection to that appointment.
5. That The Hongkong and Shanghai Banking Corporation Limited complies with the requirements imposed on it by the Hong Kong Monetary Authority.
6. That The Hongkong and Shanghai Banking Corporation Limited complies with the following minimum capital adequacy requirements, as administered by the Hong Kong Monetary Authority:
 - (a) tier one capital of The Hongkong and Shanghai Banking Corporation Limited is not less than 4 percent of risk weighted exposures; and
 - (b) capital of The Hongkong and Shanghai Banking Corporation Limited is not less than 8 percent of risk weighted exposures.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ\$15 billion.

In these conditions of registration, –

“banking group” means the New Zealand business of the registered bank and its subsidiaries as required to be reporting in group financial statements for the group’s New Zealand business under section 9(2) of the Financial Reporting Act 1993:

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

“generally accepted accounting practice” has the same meaning as in section 2 of the Financial Reporting Act 1993:

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

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STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2012

		<i>Banking Group</i>	
		Unaudited 3 months ended	
<i>Dollars in Thousands</i>	Note	31.03.12	31.03.11
Interest income		52,158	51,805
Interest expense		(30,591)	(30,758)
Net interest income		21,567	21,047
Net trading income		3,336	3,287
Other net operating income	2	7,720	8,757
Operating income		32,623	33,091
Operating expenses		(14,684)	(15,588)
Operating profit before provisions and tax		17,939	17,503
Provisions for loan impairment	6	(318)	(623)
Operating profit before tax		17,621	16,880
Income tax expense		(5,008)	(4,766)
Profit after tax		12,613	12,114
Other comprehensive income			
Cashflow hedges		314	604
Income tax expense on cashflow hedge		(96)	(514)
Available-for-sale financial assets		(146)	334
Income tax expense on available-for-sale financial assets		41	(82)
Other comprehensive income for the period		113	342
Total comprehensive income for the period		12,726	12,456

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

STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2012

<i>Dollars in Thousands</i>	<i>Banking Group</i>	
	Unaudited	
	3 months ended	
	31.03.12	31.03.11
Head Office Account *		
At beginning of period	15,392	28,184
Repatriation to Head Office	(28,424)	(28,184)
Profit after tax	12,613	12,114
At end of period	<u>(419)</u>	<u>12,114</u>
Cashflow Hedging Reserve		
At beginning of period	(247)	(1,909)
Movement in the fair value of derivatives	371	645
Amortisation of previously terminated swaps to profit or loss	(57)	(41)
Tax on movements and transfers	(96)	(514)
At end of period	<u>(29)</u>	<u>(1,819)</u>
Available for Sale Reserve		
At beginning of period	33	36
Movement in the fair value of debt and equity securities	(146)	294
Tax on movements and transfers	41	(82)
Transfers to profit or loss on disposal of equity securities	-	40
At end of period	<u>(72)</u>	<u>288</u>
Other Reserve		
At beginning of period	1,967	1,598
Amortisation of share options granted	63	87
Movement in respect of share-based payment arrangements	(12)	(30)
At end of period	<u>2,018</u>	<u>1,655</u>
Equity at end of period	<u>1,498</u>	<u>12,238</u>
Represented by:		
Profit after tax	12,613	12,114
Other comprehensive income	113	342
Total comprehensive income for the period	<u>12,726</u>	<u>12,456</u>
Repatriation to Head Office	(28,424)	(28,184)
Movement in other reserve	51	57
Equity at beginning of period	<u>17,145</u>	<u>27,909</u>
	<u>1,498</u>	<u>12,238</u>

* 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 31 MARCH 2012

<i>Dollars in Thousands</i>	Note	<i>Banking Group</i>		
		Unaudited 31.03.12	Unaudited 31.03.11	Audited 31.12.11
ASSETS				
Cash and demand balances with central banks		638,221	542,919	543,467
Advances to banks		16,652	12,325	14,337
Debt and equity securities		550,123	570,230	552,292
Derivative financial instruments	3	193,763	161,663	189,207
Advances to customers		3,403,548	3,151,691	3,431,183
Amounts due from related parties	3	176,169	212,621	153,681
Other assets		19,755	16,171	16,688
Deferred taxation		14,036	6,599	14,014
Intangible assets		22,704	20,746	22,539
Fixed assets		2,058	2,089	2,298
Total Assets		<u>5,037,029</u>	<u>4,697,054</u>	<u>4,939,706</u>
LIABILITIES				
Deposits by banks		158,460	102,381	153,240
Derivative financial instruments	3	194,409	176,381	186,451
Customer deposits		3,172,844	2,499,173	3,091,785
Debt securities		532,735	473,554	634,805
Amounts due to related parties	3	943,441	1,397,611	812,760
Other liabilities		28,957	31,560	34,920
Current taxation		4,685	4,156	8,600
Total Liabilities		<u>5,035,531</u>	<u>4,684,816</u>	<u>4,922,561</u>
Net Assets		<u>1,498</u>	<u>12,238</u>	<u>17,145</u>
EQUITY				
Head Office Account		(419)	12,114	15,392
Cashflow Hedging Reserve		(29)	(1,819)	(247)
Available for Sale Reserve		(72)	288	33
Other Reserve		2,018	1,655	1,967
Total Equity		<u>1,498</u>	<u>12,238</u>	<u>17,145</u>

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

STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2012

	<i>Banking Group</i>	
	Unaudited 3 months ended	
<i>Dollars in Thousands</i>	31.03.12	31.03.11 (Restated)
<i>Cash flows from / (to) operating activities</i>		
Interest received	47,549	44,991
Fees and commissions	7,593	8,680
Realised trading gain / (loss)	(17,860)	(23,723)
Interest paid	(32,724)	(27,239)
Operating expenses	(12,110)	(10,947)
Taxation paid	(9,000)	-
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	(16,552)	(8,238)
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Debt and equity securities purchased	2,676	99,794
Advances to customers	21,307	(6,718)
Amounts due from related parties	(21,637)	98,169
Other assets	(350)	2,100
Other liabilities	(1,208)	(2,344)
Debt securities issued (Certificates of deposit)	(104,705)	(250,409)
Deposits by banks	(5,376)	629
Customer deposits	25,186	(46,845)
Amounts due to related parties	135,038	176,381
Net change in operating assets and liabilities	50,931	70,757
Net cash flows from / (to) operating activities	34,379	62,519
<i>Cash flows from / (to) investing activities</i>		
Acquisition of fixed assets	(17)	(47)
Acquisition of intangible assets	(549)	(756)
Net cash flows from / (to) investing activities	(566)	(803)
<i>Cash flows from / (to) financing activities</i>		
Repatriation to head office	(28,424)	(28,184)
Net cash flows from / (to) financing activities	(28,424)	(28,184)
Net increase / (decrease) in cash and cash equivalents	5,389	33,532
Effect of exchange rate fluctuations on cash held	25,684	9,851
Cash and cash equivalents at beginning of period	(969,380)	(669,389)
Cash and cash equivalents at end of period	(938,307)	(626,006)

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

STATEMENT OF CASH FLOWS *(continued)*

FOR THE THREE MONTHS ENDED 31 MARCH 2012

	<i>Banking Group</i>	
	Unaudited 3 months ended	
<i>Dollars in Thousands</i>	31.03.12	31.03.11 (Restated)
<i>Analysis of cash and cash equivalents</i>		
Cash and demand balances with central banks	638,221	542,919
Advances to banks – demand	16,652	12,325
Advances to customers – demand	150,253	112,696
Balance due from related parties – demand	17,753	110,351
Balance due to related parties – demand	(64,308)	(77,595)
Deposits by banks – demand	(129,979)	(85,767)
Deposits by customers - demand	(1,566,899)	(1,240,935)
	(938,307)	(626,006)
<i>Reconciliation of profit after tax to net cash flows from operating activities</i>		
Profit after tax	12,613	12,114
<i>Adjustments to reconcile profit after tax to net cash flow from operating activities:</i>		
Change in interest accruals and deferred income	(7,647)	(2,882)
Change in mark to market accruals	(21,323)	(27,127)
Depreciation	256	214
Amortisation of intangible asset	384	184
Amortisation of premium and discounts	1,337	368
Change in deferred income and accrued expense	1,870	4,156
Amortisation of share options granted	63	87
Impairment charge / (release) on loans and advances	318	623
Discount unwinding on impaired loans and advances	(432)	(781)
(Gain) / loss on disposal of available-for-sale equity securities	-	40
(Gain) / loss on disposal of fixed assets	1	-
Current / deferred taxation	(3,992)	4,766
Adjust operating cash flows not included in profit after tax:		
Net change in operating assets and liabilities	50,931	70,757
Net cash flows from operating activities	34,379	62,519

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

Notes to and forming part of the Interim Financial Statements

1. Statement of Accounting Policies

GENERAL ACCOUNTING POLICIES

Reporting Entity

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

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

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

HSBC Nominees (New Zealand) Limited

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

HSBC Investments New Zealand Limited

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

HSBC Cash Fund

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

HSBC Term Fund

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

Non-Banking Group Entities

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

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

Non-controlled Special Purpose Entities

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

HSBC Global Unit Trusts

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

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

1. Statement of Accounting Policies *(continued)*

Non-controlled Special Purpose Entities *(continued)*

HSBC Global Unit Trusts (continued)

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

HSBC World Selection Funds

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

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

Basis of consolidation

Special purpose entities

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

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

Transactions eliminated on consolidation

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

Basis of Reporting

These interim financial statements are prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2012, the Reserve Bank of New Zealand Act 1989 and NZ IAS 34 Interim Financial Reporting and do not include all the disclosures required for full annual financial statements. These interim financial statements are condensed financial statements in accordance with NZ IAS 34 Interim Financial Reporting.

Measurement Base

These interim financial statements are based on the general principles of historical cost accounting, as modified by the revaluation of certain assets and liabilities. They are prepared on a going concern basis. All amounts are expressed in New Zealand currency, the presentation currency and functional currency, and all references to “\$” is to New Zealand dollars unless otherwise stated.

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

1. Statement of Accounting Policies *(continued)*

Particular Accounting Policies

These interim financial statements have been prepared in accordance with NZ IAS 34 and should be read in conjunction with the Disclosure Statement for the year ended 31 December 2011. The same accounting policies have been followed in these interim financial statements as were applied in the presentation of the Disclosure Statement for the year ended 31 December 2011.

Changes in Accounting Policies

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

Comparative Figures

These interim financial statements include comparative information as required by NZ IAS 34 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2012.

In the comparative period, the amortisation of premium and discounts of debt securities was presented in interest received and interest paid in the Statement of Cash Flows. For the current period ended 31 March 2012, it is presented as a non-cash item and reclassified as changes in operating assets and liabilities. The classification of amounts due to related parties and medium term notes has been changed from financing activities to operating activities in the Statement of Cash Flows, to more accurately reflect the nature of the transactions. In the comparative period, the discount unwinding on impaired loans and advances was presented in interest received. For the current period ended 31 March 2012, it is presented as a non-cash item and reclassified as changes in operating assets and liabilities. Comparative figures have been restated accordingly and there was no impact on the net movement in cash and cash equivalents.

There have been no other material changes to the comparative figures.

Risk Management

There has been no material change during the three months ended 31 March 2012 to the Banking Group's policies for managing risks in relation to credit, currency, interest rates, equity, liquidity or any material business risk to which the Banking Group is exposed.

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

<i>Dollars in Thousands</i>	Unaudited 31.03.12
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2. Other net operating income

Fee and commission income	9,903
Fee and commission expense	(2,182)
Loss on disposal of fixed assets	(1)
	<u>7,720</u>

3. Related party balances

Related party transactions are unsecured and entered into in the normal course of business. During the period there have been dealings between the Branch, HBAP and its subsidiaries and associated companies and other members of the ultimate holding company. Dealings include activities such as funding, accepting deposits, derivative transactions together with management and technical fees.

There has been no significant change in the nature or volume of related party transactions during the period.

Assets

Amounts due from related parties	176,169
Derivative financial instruments – assets	62,942
Total related party assets	<u>239,111</u>

Liabilities

Amounts due to related parties	943,441
Derivative financial instruments – liabilities	50,909
Total related party liabilities	<u>994,350</u>

4. Additional financial disclosures on the statement of financial position

Total interest earning and discount bearing assets	4,771,355
Total interest and discount bearing liabilities	4,575,856
Total liabilities net of amounts due to related parties	4,041,181

Notes to and forming part of the Interim Financial Statements *(continued)***5. Segment reporting**

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

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

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

Business Segments

The Banking Group comprises the following main business segments:

- *Retail Banking and Wealth Management (RBWM)*
Includes loans, deposits and other transactions with retail customers.
- *Commercial Banking (CMB)*
Manages the relationships with small and medium sized corporate customers providing loans, deposits and other transactions including trade finance and payment cash management.
- *Global Banking and Markets (GBM)*
Manages the relationships with large corporate and institutional customers and undertakes the Banking Group's treasury and investment banking operations.

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

<i>Banking Group</i>						
Unaudited 3 months ended 31.03.12						
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Operating income	6,863	18,587	5,141	30,591	2,032	32,623
Operating profit / (loss) before tax	1,129	12,345	2,068	15,542	2,079	17,621

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

	<i>Banking Group</i>	
<i>Dollars in Thousands</i>		Unaudited 31.03.12

6. Asset quality

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

Gross individually impaired assets	73,273
Gross advances past due 90 days or more but not impaired	-
Specific provision for loan impairment	
Balance at the beginning of the period	41,261
New and additional provisions charged to profit or loss	12
Provisions released during the period to profit or loss	-
Write-offs	-
Discount unwind ¹	(432)
Exchange adjustment	(193)
Balance at the end of the period	<u>40,648</u>
Collective provision for loan impairment	
Balance at the beginning of the period	1,690
Additional provision charged to profit or loss	526
Provisions released during the period to profit or loss	(202)
Balance at the end of the period	<u>2,014</u>
Total provisions for loan impairment	<u>42,662</u>
Profit or loss charge / (credit)	
Specific provisions for impairment against advances	12
Collective provisions for impairment against advances	526
Total provisions for impairment against advances	<u>538</u>
Specific provisions released	-
Collective provisions released	(202)
Total provisions released no longer required	<u>(202)</u>
Net increase in provisions for impairment against advances	336
Recoveries of amounts written off in previous period	(18)
	<u>318</u>

¹ The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

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

	<i>Banking Group</i>			
	Principal Amount			
	Does not exceed 80% \$m	Exceeds 80% and not 90% \$m	Exceeds 90% \$m	Total \$m
31 March 2012 (Unaudited)				
Value of exposures on balance sheet	935.5	16.3	10.7	962.5
Value of exposures off balance sheet	33.7	0.1	0.0	33.8
Total value of exposures	<u>969.2</u>	<u>16.4</u>	<u>10.7</u>	<u>996.3</u>

Notes to and forming part of the Interim Financial Statements *(continued)***8. Liquidity risk management**

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

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

<i>Dollars in Thousands</i>	<i>Banking Group Unaudited 31.03.12</i>
Demand balances with the central bank	636,915
Available-for-sale debt securities and treasury bills	550,070
	<u>1,186,985</u>

9. Market risk exposures

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

<i>Dollars in Millions</i>	<i>Implied risk weighted Exposure</i>	<i>Notional capital charge</i>
<i>Exposure at 31 March 2012 (Unaudited)</i>		
Interest rate risk	44.3	3.5
Foreign currency risk	0.0	0.0
Equity risk	-	-

10. Concentration of credit exposures to individual counterparties

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

Notes to and forming part of the Interim Financial Statements *(continued)***11. Profitability, size and asset quality of HBAP Group**

<i>Dollars in HK\$ millions</i>	Audited 12 months ended 31.12.11
Profitability	
Net profit after tax	73,904
Net profit after tax over the previous year as a percentage of average total assets	1.4%
Size	
Total assets as at 31 December 2011	5,607,480
Percentage increase in total assets over the year ending on 31 December 2011	11.3%
Asset quality	
Individually impaired assets	12,371
Individual impairment provision against advances to customers	(6,894)
Collective impairment provision against advances to customers	(4,407)
Individually impaired assets / total assets	0.2%
Individual impairment provision / individually impaired assets	55.7%

12. Capital adequacy ratios

HBAP Group is subject to the capital requirements as specified by the Hong Kong Monetary Authority (HKMA). HBAP Group uses the advanced internal ratings-based approach (IRBA) to calculate its credit risk for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to determine credit risk for its securitisation exposures. For market risk, HBAP Group uses an internal models approach to calculate its general market risk, specific risk for the interest rate risk category and market risk relating to equity options. HBAP Group uses the standardised (market risk) approach for calculating other market risk positions and the standardised (operational risk) approach to calculate its operational risk.

The capital requirements of HKMA are at least equal to those specified under the Basel framework (commonly known as "Basel II") and are not publicly available. HBAP Group exceeds the minimum capital ratio requirements as specified by the HKMA as at 31 December 2011 and 31 December 2010.

HBAP Group reported the following capital adequacy ratios:

	Unaudited 31.12.11	Unaudited 31.12.10
Capital Ratios		
Core capital ratio	12.4%	11.7%
Capital adequacy ratio	14.6%	14.7%

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

13. Insurance and non-financial activities

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

14. Subsequent event

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

Directors' and New Zealand Chief Executive Officer's Statements

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2012;
- The Disclosure Statement is not false or misleading;

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

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

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

over the three months ended 31 March 2012.

This Disclosure Statement has been signed for and on behalf of the Directors of The Hongkong and Shanghai Banking Corporation Limited (as listed on pages 3 to 5) by their attorney, Noel Gerard McNamara, and also in his capacity as Chief Executive Officer:



Noel Gerard McNamara
Chief Executive Officer
New Zealand Branch

29 May 2012

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

HSBC 