The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 September 2013

HSBC

Disclosure Statement
For the Nine Months Ended 30 September 2013

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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 HSBC Holdings plc's website, www.hsbc.com under Investor Relations, Financial Results.

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. Save as aforesaid, the Directors believe that no other material legislative or regulatory restrictions exist which subordinate the claims of any class of the Banking Group's unsecured creditors on the global assets of HBAP to those of any other class of unsecured creditors of HBAP, in a winding up of HBAP.

Guarantee Arrangements

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

Government Guarantee

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

General Disclosures *(continued)*

Other Material Matters

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

Pending Proceedings and Arbitration

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

Auditor

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

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

New Zealand Chief Executive Officer/Responsible Person

The New Zealand Chief Executive Officer, Noel Gerard McNamara, has been authorised in writing by each Director named below, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this Disclosure Statement on the Directors' behalf. Accordingly, Noel Gerard McNamara is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2013.

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
BA, LLB (Hons I) from Sydney University, 1971
LLM, Harvard University, 1973

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
Company Director

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

*** 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

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

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

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

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

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

Change in Board of Directors for HBAP

The composition of the Board of Directors has changed since 31 December 2012.

Paul Anthony Thurston and Dr Patrick Wang Shui Chung resigned as non-executive directors of HBAP with effect from 1 January 2013. Dr William Fung Kwok Lun and Thomas Brian Stevenson resigned as non-executive directors of HBAP with effect from 20 May 2013.

Dr Christopher Cheng Wai Chee and Kevin Anthony Westley were appointed as non-executive directors of HBAP with effect from 1 May 2013 and 9 May 2013 respectively.

Irene Lee Yun-lien was appointed as non-executive director of HBAP with effect from 1 October 2013.

Credit Rating

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

	Current Rating	Previous Rating (if changed in the previous two years)	Date of Change
Moody's Investor Service Inc.	Aa2 (stable outlook)	Aa1 (stable outlook)	25 June 2012
Standard & Poor's Corporation	AA- (stable outlook)	AA (stable outlook)	29 November 2011
Fitch IBCA Inc.	AA- (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 1 January 2013.

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, 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 requirements.

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 percent	4 percent	4.5 percent
Tier 1 capital	4.5 percent	5.5 percent	6 percent
Total capital	8 percent	8 percent	8 percent

   For the purpose 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.

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.

Conditions of Registration *(continued)*

Changes to Conditions of Registration as from 1 October 2013

Changes have been made to the Conditions of Registration above and will apply on and after 1 October 2013. The purpose of the changes is to add new conditions restricting high loan-to-valuation residential mortgage lending from 1 October 2013.

Effective from 1 October 2013, the additional conditions are as follows:

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.

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 September 2013:

"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.

Contents

STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

		Banking Group	
		Unaudited **9 months ended**	
Dollars in Thousands	Note	**30.09.13**	30.09.12
Interest income		**142,273**	154,208
Interest expense		**(83,478)**	(87,634)
Net interest income		**58,795**	66,574
Net trading income	2	**15,485**	7,679
Other net operating income	3	**29,296**	26,256
Operating income		**103,576**	100,509
Operating expenses		**(43,110)**	(43,764)
Operating profit before provisions and tax		**60,466**	56,745
Provisions for loan impairment	7	**2,073**	(1,772)
Operating profit before tax		**62,539**	54,973
Income tax expense		**(17,583)**	(15,481)
Profit after tax		**44,956**	39,492
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cashflow hedges		**2,139**	830
Income tax expense on cashflow hedge		**(635)**	(241)
Available-for-sale financial assets		**35**	(347)
Income tax expense on available-for-sale financial assets		**(9)**	104
Other comprehensive income for the period		**1,530**	346
Total comprehensive income for the period		**46,486**	39,838

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

STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

	Banking Group	
	Unaudited 9 months ended	
Dollars in Thousands	**30.09.13**	30.09.12
Head Office Account *		
At beginning of period	**13,503**	15,392
Repatriation to Head Office	**(42,261)**	(42,488)
Profit after tax	**44,956**	39,492
At end of period	**16,198**	12,396
Cashflow Hedging Reserve		
At beginning of period	**374**	(247)
Movement in the fair value of derivatives	**2,139**	960
Amortisation of previously terminated swaps to profit or loss	**-**	(130)
Tax on movements and transfers	**(635)**	(241)
At end of period	**1,878**	342
Available for Sale Reserve		
At beginning of period	**(187)**	33
Movement in the fair value of debt and equity securities	**35**	(368)
Tax on movements and transfers	**(9)**	104
Transfer to profit or loss on disposal of equity securities	**-**	21
At end of period	**(161)**	(210)
Other Reserve		
At beginning of period	**1,658**	1,967
Amortisation of share options granted	**215**	483
Movement in respect of share-based payment arrangements	**(255)**	(766)
At end of period	**1,618**	1,684
Equity at end of period	**19,533**	14,212
Represented by:		
Profit after tax	**44,956**	39,492
Other comprehensive income	**1,530**	346
Total comprehensive income for the period	**46,486**	39,838
Repatriation to Head Office	**(42,261)**	(42,488)
Movement in other reserve	**(40)**	(283)
Equity at beginning of period	**15,348**	17,145
	19,533	14,212

* 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 SEPTEMBER 2013

			Banking Group	
Dollars in Thousands	Note	**Unaudited 30.09.13**	Unaudited 30.09.12	Audited 31.12.12
ASSETS				
Cash and demand balances with central banks		**536,555**	604,652	299,307
Advances to banks	5	**15,514**	27,377	17,999
Debt and equity securities		**426,003**	615,533	797,722
Derivative financial instruments	4	**169,554**	237,187	252,137
Advances to customers		**3,297,703**	3,222,303	3,313,883
Amounts due from related parties	4	**429,916**	156,358	305,102
Other assets		**19,916**	30,540	20,501
Deferred taxation		**-**	-	16,272
Current taxation		**5,540**	13,521	-
Intangible assets		**20,130**	21,847	21,417
Fixed assets		**1,445**	1,842	1,635
Total Assets		**4,922,276**	4,931,160	5,045,975
LIABILITIES				
Deposits by banks		**122,318**	169,346	157,008
Derivative financial instruments	4	**133,667**	244,308	242,902
Customer deposits		**3,330,927**	3,223,630	3,357,125
Debt securities		**553,113**	406,501	389,441
Amounts due to related parties	4	**722,527**	831,179	840,798
Other liabilities		**36,945**	41,758	39,852
Deferred taxation		**3,246**	-	-
Current taxation		**-**	226	3,501
Total Liabilities		**4,902,743**	4,916,948	5,030,627
Net Assets		**19,533**	14,212	15,348
EQUITY				
Head Office Account		**16,198**	12,396	13,503
Cashflow Hedging Reserve		**1,878**	342	374
Available for Sale Reserve		**(161)**	(210)	(187)
Other Reserve		**1,618**	1,684	1,658
Total Equity		**19,533**	14,212	15,348

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

STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

	Banking Group	
	Unaudited 9 months ended	
Dollars in Thousands	**30.09.13**	30.09.12
Cash flows from / (to) operating activities		
Interest received	**144,619**	140,867
Fees and commissions	**29,000**	25,857
Realised trading gain / (loss)	**8,268**	(10,878)
Interest paid	**(78,189)**	(78,558)
Operating expenses	**(44,711)**	(49,395)
Taxation paid	**(7,750)**	(23,500)
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	**51,237**	4,393
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)	**367,544**	(61,825)
Advances to customers	**126,023**	236,118
Amounts due from related parties	**(135,112)**	735
Other assets	**(584)**	(4,699)
Other liabilities	**56**	5,921
Debt securities issued (Certificates of deposit)	**158,116**	(235,276)
Deposits by banks	**(1,276)**	(26,973)
Customer deposits	**(113,018)**	74,914
Amounts due to related parties	**(123,319)**	19,530
Net change in operating assets and liabilities	**278,430**	8,445
Net cash flows from / (to) operating activities	**329,667**	12,838
Cash flows from / (to) investing activities		
Proceeds of fixed assets	**8**	-
Acquisition of fixed assets	**(389)**	(284)
Acquisition of intangible assets	**-**	(549)
Net cash flows from / (to) investing activities	**(381)**	(833)
Cash flows from / (to) financing activities		
Repatriation to head office	**(42,261)**	(42,488)
Net cash flows from / (to) financing activities	**(42,261)**	(42,488)
Net increase / (decrease) in cash and cash equivalents	**287,025**	(30,483)
Effect of exchange rate fluctuations on cash held	**(14,092)**	29,348
Cash and cash equivalents at beginning of period	**(1,348,708)**	(969,380)
Cash and cash equivalents at end of period	**(1,075,775)**	(970,515)

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

STATEMENT OF CASH FLOWS *(continued)*
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

	Banking Group	
	Unaudited **9 months ended**	
Dollars in Thousands	**30.09.13**	30.09.12
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**536,555**	604,652
Advances to banks – demand	**15,514**	27,377
Advances to customers – demand	**252,022**	183,241
Balance due from related parties – demand	**30,568**	20,200
Balance due to related parties – demand	**(77,571)**	(75,566)
Deposits by banks – demand	**(118,150)**	(162,462)
Deposits by customers - demand	**(1,714,713)**	(1,567,957)
	(1,075,775)	(970,515)

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 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.

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 when the Banking Group is exposed, or has rights, to variable returns from its involvement with the SPE and has the power to affect those returns. 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 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 (No 2) 2013 (“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 2012.

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 2012. 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 2013.

Changes in Accounting Policies

The Banking Group adopted the following standards and amendments which became effective on 1 January 2013. The application of these standards and amendments does not have a material impact to the financial results of the Banking Group. There has been no change to the SPEs consolidated with the adoption of NZ IFRS 10.

- NZ IFRS 13 Fair Value Measurement
- NZ IFRS 10 Consolidated Financial Statements
- NZ IFRS 12 Disclosure of Interests in Other Entities
- NZ IAS 27 Separate Financial Statements
- Amendments to NZ IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to NZ IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

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 2012.

Comparative Figures

These interim financial statements include comparative information as required by NZ IAS 34 and the Order. There have been no material changes to the comparative figures.

Risk Management

There has been no material change during the nine months ended 30 September 2013 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	
Dollars in Thousands	**Unaudited 30.09.13**	Unaudited 30.09.12
2. Net trading income		
Foreign exchange gains	**10,042**	**7,202**
Revaluation of derivatives	**1,103**	**429**
Credit valuation adjustments on derivatives assets	**(2,288)**	**(5)**
Debit valuation adjustments on derivatives liabilities	**6,589**	**-**
Gain/ (Loss) on hedging instrument in fair value hedge	**2,947**	**(286)**
Gain/ (Loss) on hedged item on fair value hedge	**(2,908)**	**339**
	15,485	**7,679**
3. Other net operating income		
Fee and commission income	**33,028**	32,480
Fee and commission expense	**(3,740)**	(6,202)
Gain/ (loss) on disposal of equipment, fixtures and fittings	**8**	(1)
Loss on disposal of available-for-sale equity securities	**-**	(21)
	29,296	26,256

	Banking Group		
Dollars in Thousands	**Unaudited 30.09.13**	Unaudited 30.09.12	Audited 31.12.12

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 30.09.13	Unaudited 30.09.12	Audited 31.12.12
Assets			
Amounts due from related parties	**429,916**	156,358	305,102
Derivative financial instruments – assets	**44,716**	99,011	119,970
Total related party assets	**474,632**	255,369	425,072
Liabilities			
Amounts due to related parties	**722,527**	831,179	840,798
Derivative financial instruments – liabilities	**1,224**	5,029	2,038
Total related party liabilities	**723,751**	836,208	842,836

5. Additional financial disclosures on the statement of financial position

	Unaudited 30.09.13	Unaudited 30.09.12	Audited 31.12.12
Total interest earning and discount bearing assets	**4,685,335**	4,613,553	4,714,980
Total interest and discount bearing liabilities	**4,503,401**	4,407,364	4,515,248
Total liabilities net of amounts due to related parties (Banking Group and Branch)	**4,178,992**	4,080,740	4,187,791
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligation to derivative counterparties	**-**	12,100	-

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 nine months ended 30.09.13					
Dollars in Thousands	**RBWM**	**CMB**	**GBM**	**Total Reportable Segments**	**Reconciling items**	**Consolidated**
Operating income	**21,858**	**55,964**	**21,339**	**99,161**	**4,415**	**103,576**
Operating profit / (loss) before tax	**5,437**	**39,418**	**12,447**	**57,302**	**5,237**	**62,539**

	Banking Group					
	Unaudited nine months ended 30.09.12					
Dollars in Thousands	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Operating income	21,896	56,971	16,208	95,075	5,434	100,509
Operating profit / (loss) before tax	4,521	36,902	6,613	48,036	6,937	54,973

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

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.09.13**	30.09.12	31.12.12

7. Asset quality

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

Gross individually impaired assets	**2,413**	72,060	65,217
Gross advances that are at least 90 days past due but not impaired	**-**	-	-
Specific provision for loan impairment			
Balance at the beginning of the period	**49,533**	41,261	41,261
New and additional provisions charged to profit or loss	**358**	1,320	16,881
Provisions released during the period to profit or loss	**(1,166)**	(279)	(771)
Write-offs	**(7,370)**	(969)	(6,163)
Discount unwind [1]	**(12)**	(1,180)	(1,471)
Discount unwind [1] – sale of portfolio of impaired loans	**(61)**	-	-
Provisions released – sale of portfolio of impaired loans	**(40,823)**	-	-
Exchange adjustment	**-**	(247)	(204)
Balance at the end of the period	**459**	39,906	49,533
Collective provision for loan impairment			
Balance at the beginning of the period	**3,817**	1,690	1,690
Additional provision charged to profit or loss	**1,007**	1,632	2,330
Provisions released during the period to profit or loss	**(774)**	(301)	(203)
Balance at the end of the period	**4,050**	3,021	3,817
Total provisions for loan impairment	**4,509**	42,927	53,350
Profit or loss charge / (credit)			
Specific provisions for impairment against advances	**358**	1,320	16,881
Collective provisions for impairment against advances	**1,007**	1,632	2,330
Total provisions for impairment against advances	**1,365**	2,952	19,211
Specific provisions released	**(1,166)**	(279)	(771)
Collective provisions released	**(774)**	(301)	(203)
Total provisions released no longer required	**(1,940)**	(580)	(974)
Net increase in provisions for impairment against advances	**(575)**	2,372	18,237
Recoveries of amounts written off in previous period	**(1,498)**	(600)	(641)
	(2,073)	1,772	17,596

[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.

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

8. Additional mortgage information

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 September 2013 (Unaudited)				
Value of exposures on balance sheet	**976.4**	**31.4**	**12.9**	**1,020.7**
Value of exposures off balance sheet	**27.5**	**0.0**	**0.0**	**27.5**
Total value of exposures	**1,003.9**	**31.4**	**12.9**	**1,048.2**
30 September 2012 (Unaudited)				
Value of exposures on balance sheet	869.5	23.3	22.4	915.2
Value of exposures off balance sheet	31.0	0.1	0.0	31.1
Total value of exposures	900.5	23.4	22.4	946.3
31 December 2012 (Audited)				
Value of exposures on balance sheet	856.0	19.8	19.3	895.1
Value of exposures off balance sheet	30.6	0.0	0.0	30.6
Total value of exposures	886.6	19.8	19.3	925.7

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.

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

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

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

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

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

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

		Banking Group **Unaudited**		
Dollars in Thousands	**30.09.13**	**30.09.13**	**30.09.13**	**30.09.13**
	Level 1	**Level 2**	**Level 3**	**TOTAL**
ASSETS				
Debt and equity securities	**260,282**	**165,699**	**22**	**426,003**
Derivatives financial instruments	**-**	**169,554**	**-**	**169,554**
LIABILITIES				
Derivatives financial instruments	**-**	**133,667**	**-**	**133,667**

		Banking Group Unaudited		
Dollars in Thousands	30.09.12	30.09.12	30.09.12	30.09.12
	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Debt and equity securities	272,436	343,065	32	615,533
Derivatives financial instruments	-	237,187	-	237,187
LIABILITIES				
Derivatives financial instruments	-	244,308	-	244,308

		Banking Group Audited		
Dollars in Thousands	31.12.12	31.12.12	31.12.12	31.12.12
	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Debt and equity securities	404,343	393,357	22	797,722
Derivatives financial instruments	-	252,137	-	252,137
LIABILITIES				
Derivatives financial instruments	-	242,902	-	242,902

There have been no transfers between levels 1 and 2 in the period to 30 September 2013 (September 2012: none; December 2012: none). Any transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

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

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 30.09.13**		
Dollars in Thousands	**Assets Available-For-sale**	**Assets Derivatives**	**Liabilities Derivatives**
Balance at the beginning of the period	**22**	**-**	**-**
Transfers out of level 3	**-**	**-**	**-**
Disposal	**-**	**-**	**-**
Total gains or losses recognised in profit or loss	**-**	**-**	**-**
Balance at the end of the period	**22**	**-**	**-**

	Banking Group Unaudited 30.09.12		
Dollars in Thousands	Assets Available-For-sale	Assets Derivatives	Liabilities Derivatives
Balance at the beginning of the period	32	-	-
Transfers out of level 3	-	-	-
Disposal	-	-	-
Total gains or losses recognised in profit or loss	-	-	-
Balance at the end of the period	32	-	-

	Banking Group Audited 31.12.12		
Dollars in Thousands	Assets Available-For-sale	Assets Derivatives	Liabilities Derivatives
Balance at the beginning of the period	32	1,213	1,213
Transfers out of level 3	-	(1,097)	(1,097)
Disposal	(10)	-	-
Total gains or losses recognised in profit or loss	-	(116)	(116)
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.

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 September 2013 is $22 thousand, the effect in equity arising from changes in significant non-observable assumptions is insignificant (September 2012: $32 thousand; December 2012: $22 thousand).

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, fair value is determined by using discounted cash flow methods using the interest rates applicable to financial instruments of similar maturity.

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.

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 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.

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.

	Banking Group		*Banking Group*	
Dollars in Thousands	**Unaudited 30.09.13 Carrying Value**	**Unaudited 30.09.13 Fair Value**	Unaudited 30.09.12 Carrying Value	Unaudited 30.09.12 Fair Value
ASSETS				
Advances to customers	**3,297,703**	**3,298,784**	3,222,303	3,241,583
Total financial assets not carried at fair value	**3,297,703**	**3,298,784**	3,222,303	3,241,583
Total financial assets whose carrying value approximates fair value	**1,597,061**	**1,597,061**	1,671,352	1,671,352
Total financial assets	**4,894,764**	**4,895,845**	4,893,655	4,912,935
Total non-financial assets	**27,512**		37,505	
Total assets	**4,922,276**		4,931,160	
LIABILITIES				
Customer deposits	**3,330,927**	**3,347,001**	3,223,630	3,226,681
Debt securities	**553,113**	**555,583**	406,501	406,282
Amounts due to related parties	**722,527**	**723,721**	831,179	831,101
Total financial liabilities not carried at fair value	**4,606,567**	**4,626,305**	4,461,310	4,464,064
Total financial liabilities whose carrying value approximates fair value	**289,318**	**289,318**	453,018	453,018
Total financial liabilities	**4,895,885**	**4,915,623**	4,914,328	4,917,082
Total non-financial liabilities	**6,858**		2,620	
Total liabilities	**4,902,743**		4,916,948	

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

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

	Banking Group	
Dollars in Thousands	Audited 31.12.12 Carrying Value	Audited 31.12.12 Fair Value
ASSETS		
Advances to customers	3,313,883	3,322,980
Total financial assets not carried at fair value	3,313,883	3,322,980
Total financial assets whose carrying value approximates fair value	1,692,554	1,692,554
Total financial assets	5,006,437	5,015,534
Total non-financial assets	39,538	
Total assets	5,045,975	
LIABILITIES		
Customer deposits	3,357,125	3,360,173
Debt securities	389,441	391,335
Amounts due to related parties	840,798	840,775
Total financial liabilities not carried at fair value	4,587,364	4,592,283
Total financial liabilities whose carrying value approximates fair value	437,180	437,180
Total financial liabilities	5,024,544	5,029,463
Total non-financial liabilities	6,083	
Total liabilities	5,030,627	

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

10. Concentration of Credit Exposures to Individual counterparties

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

11. Liquidity risk management

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

Liquid assets are assets which are readily convertible to cash to meet the Banking Group's liquidity requirement. Liquid assets consist of demand balances with the central bank, treasury bills, 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:

	Banking Group		
Dollars in Thousands	**Unaudited 30.09.13**	Unaudited 30.09.12	Audited 31.12.12
Demand balances with the central bank	**536,555**	603,351	297,919
Available-for-sale debt securities and treasury bills	**425,981**	615,501	797,700
	962,536	1,218,852	1,095,619

12. 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 September 2013 (Unaudited)		
Interest rate risk	**29.75**	**2.38**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**
Peak exposure period 1 January 2013 to 30 September 2013 (Unaudited)		
Interest rate risk	**92.13**	**7.37**
Foreign currency risk	**2.25**	**0.18**
Equity risk	**-**	**-**

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

13. 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 30.09.13**	Unaudited 30.09.12	Audited 31.12.12
Direct credit substitutes	**62,056**	25,424	48,929
Transaction related contingent items	**267,684**	197,951	253,502
Trade related contingent items	**101,751**	108,284	131,957
Commitments, maturity one year or more	**880,878**	766,688	833,677
Commitments, maturity up to one year	**608,534**	662,778	674,327
	1,920,903	1,761,125	1,942,392
Capital commitments			
Contracted expenditure	**-**	-	9

14. Insurance and non-financial activities

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

15. Subsequent event

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

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

16. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Unaudited Six months ended 30.06.13**	Audited 12 months ended 31.12.12
Profitability		
Net profit after tax	**87,503**	90,719
Net profit after tax over the previous 12 month period, as a percentage of average total assets	**2.2%**	1.6%
Size		
Total assets	**5,981,060**	6,065,327
Percentage increase in total assets over the previous 12 months period	**3.8%**	8.2%
Asset quality		
Individually impaired assets	**10,925**	11,394
Individual impairment provision against advances to customers	**(4,785)**	(5,245)
Collective impairment provision against advances to customers	**(4,238)**	(4,526)
Individually impaired assets / total assets	**0.2%**	0.2%
Individual impairment provision / individually impaired assets	**43.8%**	46.0%

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

17. 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 2013 and 30 June 2012.

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.

On 1 January 2013, the HKMA implemented the first phase of the Basel III capital framework in Hong Kong. The capital disclosures for June 2013 under Basel III are, therefore, not directly comparable with the disclosures for June 2012 prepared under the Basel II basis.

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

	Unaudited 30.06.13
Basel III Capital Ratios	
Common Equity Tier 1 (CET1) capital	**14.2%**
Tier 1 capital	**14.2%**
Total capital	**15.5%**

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

HBAP Group reported the following capital adequacy ratios under Basel II at 30 June 2012:

	Unaudited 30.06.12
Basel II Capital Ratios	
Core capital ratio	13.3%
Capital adequacy ratio	14.8%

Directors' and New Zealand Chief Executive Officer's Statements

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2013;
- The Disclosure Statement is not false or misleading;

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

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

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

over the nine months ended 30 September 2013.

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

25 November 2013

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

HSBC