The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 September 2014

HSBC

Disclosure Statement
For the Nine Months Ended 30 September 2014

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General Disclosures

Registered Bank

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

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

New Zealand Branch

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

New Zealand Head Office:
1 Queen Street
Auckland
New Zealand

New Zealand Banking Group

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

Overseas Banking Group

The Overseas Banking Group ("HBAP Group") includes all entities consolidated for the purposes of public reporting of Group financial statements in Hong Kong including HBAP and its 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 and regulatory reports.

Ranking of Local Creditors in a Winding-up

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

Guarantee Arrangements

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

Government Guarantee

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

General Disclosures *(continued)*

Other Material Matters

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

Pending Proceedings and Arbitration

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

Auditor

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

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

New Zealand Chief Executive Officer/Responsible Person

The New Zealand Chief Executive Officer, Noel Gerard McNamara, has been authorised in writing by each Director named below, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this Disclosure Statement on the Directors' behalf. Accordingly, Noel Gerard McNamara is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended).

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

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

Dealings with Responsible Person

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

Board of Directors of HBAP

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

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

Laura Cha May Lung, GBS (Non-Executive Deputy Chairman)
B.A., University of Wisconsin-Madison, 1972; Juris Doctor, University of Santa Clara Law School, 1982; and admitted to practice in the State of California and in Federal Courts, 1983
Company Director

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

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

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

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

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

Dr Raymond Ch'ien Kuo Fung, GBS, CBE
B.A., Rockford College, 1973; Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania, 1976 and 1978
Non-Executive Chairman of MTR Corporation Limited and Independent Non-executive Chairman of Hang Seng Bank Limited

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

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

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

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

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

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

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

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

Dr Rosanna Wong Yick-Ming, DBE
B.Soc.Sc, University of Hong Kong 1975; MSW, University of Toronto 1979; M.Sc. in Social Policy and Planning, London School of Economics and Political Science, University of London 1983; Diploma in Executive Management, Chinese University of Hong Kong 1985; M.A. and Doctor Degree in Sociology, University of California, Davis 1993 and 1997
Executive Director, The Hong Kong Federation of Youth Groups

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

Tan Sri Dr Francis Yeoh Sock Ping, CBE
Honorary Doctorate of Engineering from University of Kingston, 2004
Fellow of the Institute of Civil Engineers in London, 2008
Managing Director of YTL Corporation Berhad

Xinzhe Li Jennifer
Master of Business Administration, The University of British Columbia, Vancouver, Canada, 1994
Bachelor of Arts, Tsinghua University, Beijing, China, 1990
Chief Financial Officer of Baidu, Inc.

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

Change in Board of Directors for HBAP

The composition of the Board of Directors has changed since 31 December 2013.

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

John Robert Slosar and Xinzhe Li Jennifer were appointed as non-executive directors of HBAP with effect from 12 May 2014 and 22 September 2014 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.	Aa2 (stable outlook)	Not changed	-
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (stable outlook)	AA (negative outlook)	7 December 2012

Conditions of Registration

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

These conditions of registration apply on and after 1 July 2014.

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

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration, –

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

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

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

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

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

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

Conditions of Registration *(continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

Conditions of Registration *(continued)*

In these conditions of registration, –

"banking group" —

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

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

"business of the registered bank in New Zealand" —

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

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

"generally accepted accounting practice" —

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

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

"liabilities of the registered bank in New Zealand" —

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

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

In conditions of registration 8 to 12,—

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

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

Changes to Conditions of Registration since the 30 June 2014 Disclosure Statement

The "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated July 2014 referred to above was previously "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated March 2014.

Effective 1 November 2014 this will be amended again to read "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2014.

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

		Banking Group	
		Unaudited 9 months ended	
Dollars in Thousands	Note	**30.09.14**	30.09.13
Interest income		**149,891**	142,273
Interest expense		**(83,359)**	(83,478)
Net interest income		**66,532**	58,795
Net trading income	2	**7,007**	15,485
Other net operating income	3	**25,860**	29,296
Operating income		**99,399**	103,576
Operating expenses		**(44,620)**	(43,110)
Operating profit before provisions and tax		**54,779**	60,466
Net loan impairment credit / (charge)	7	**16,074**	2,073
Operating profit before tax		**70,853**	62,539
Income tax expense		**(19,914)**	(17,583)
Profit after tax		**50,939**	44,956
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Cashflow hedges		**(1,515)**	2,139
Income taxes on cashflow hedges		**424**	(635)
Available-for-sale financial assets		**393**	35
Income taxes on available-for-sale financial assets		**(110)**	(9)
Other comprehensive income / (expense) for the period		**(808)**	1,530
Total comprehensive income for the period		**50,131**	46,486

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 2014

	Banking Group	
	Unaudited	
	9 months ended	
Dollars in Thousands	**30.09.14**	30.09.13
Head Office Account *		
At beginning of period	**(3,691)**	13,503
Repatriation to Head Office	**-**	(42,261)
Profit after tax	**50,939**	44,956
At end of period	**47,248**	16,198
Cashflow Hedging Reserve		
At beginning of period	**2,327**	374
Movement in the fair value of derivatives	**(1,515)**	2,139
Tax on movements and transfers	**424**	(635)
At end of period	**1,236**	1,878
Available for Sale Reserve		
At beginning of period	**42**	(187)
Movement in the fair value of debt and equity securities	**393**	35
Tax on movements and transfers	**(110)**	(9)
At end of period	**325**	(161)
Other Reserve		
At beginning of period	**1,623**	1,658
Amortisation of share options granted	**199**	215
Movement in respect of share-based payment arrangements	**(178)**	(255)
At end of period	**1,644**	1,618
Equity at end of period	**50,453**	19,533
Represented by:		
Profit after tax	**50,939**	44,956
Other comprehensive income / (expense)	**(808)**	1,530
Total comprehensive income for the period	**50,131**	46,486
Repatriation to Head Office	**-**	(42,261)
Movement in other reserve	**21**	(40)
Equity at beginning of period	**301**	15,348
	50,453	19,533

* 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 2014

		Banking Group		
Dollars in Thousands	Note	**Unaudited 30.09.14**	Unaudited 30.09.13	Audited 31.12.13
ASSETS				
Cash and demand balances with central banks		**659,983**	536,555	763,286
Advances to banks	5	**17,078**	15,514	15,179
Debt and equity securities		**523,409**	426,003	399,585
Derivative financial instruments	4	**141,664**	169,554	146,001
Advances to customers		**3,288,292**	3,297,703	3,372,765
Amounts due from related parties	4	**490,944**	429,916	308,868
Other assets		**24,466**	19,916	16,944
Current taxation		**-**	5,540	593
Deferred taxation		**6,600**	-	9,130
Intangible assets		**18,538**	20,130	19,847
Fixed assets		**1,006**	1,445	1,317
Total Assets		**5,171,980**	4,922,276	5,053,515
LIABILITIES				
Deposits by banks		**443,360**	122,318	157,678
Derivative financial instruments	4	**130,907**	133,667	121,008
Customer deposits		**3,011,463**	3,330,927	3,135,950
Debt securities		**676,118**	553,113	792,482
Amounts due to related parties	4	**813,604**	722,527	808,696
Other liabilities		**45,099**	36,945	37,400
Current taxation		**976**	-	-
Deferred taxation		**-**	3,246	-
Total Liabilities		**5,121,527**	4,902,743	5,053,214
Net Assets		**50,453**	19,533	301
EQUITY				
Head Office Account		**47,248**	16,198	(3,691)
Cashflow Hedging Reserve		**1,236**	1,878	2,327
Available for Sale Reserve		**325**	(161)	42
Other Reserve		**1,644**	1,618	1,623
Total Equity		**50,453**	19,533	301

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 2014

	Banking Group	
	Unaudited **9 months ended**	
Dollars in Thousands	**30.09.14**	30.09.13
Cash flows from / (to) operating activities		
Interest received	**140,062**	144,619
Fees and commissions	**25,535**	29,000
Realised trading gain / (loss)	**45,835**	8,268
Interest paid	**(72,844)**	(78,189)
Operating expenses	**(46,651)**	(44,711)
Taxation paid	**(15,501)**	(7,750)
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	**76,436**	51,237
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)	**(123,604)**	367,544
Advances to customers	**154,128**	126,023
Amounts due from related parties	**(225,261)**	(135,112)
Other assets	**(2,257)**	(584)
Other liabilities	**7,432**	56
Debt securities issued / (redeemed)	**(124,868)**	158,116
Deposits by banks	**16,719**	(1,276)
Customer deposits	**(111,094)**	(113,018)
Amounts due to related parties	**45,235**	(123,319)
Net change in operating assets and liabilities	**(363,570)**	278,430
Net cash flows from / (to) operating activities	**(287,134)**	329,667
Cash flows from / (to) investing activities		
Proceeds of fixed assets	**-**	8
Acquisition of fixed assets	**(118)**	(389)
Net cash flows from / (to) investing activities	**(118)**	(381)
Cash flows from / (to) financing activities		
Repatriation to head office	**-**	(42,261)
Net cash flows from / (to) financing activities	**-**	(42,261)
Net increase / (decrease) in cash and cash equivalents	**(287,252)**	287,025
Effect of exchange rate fluctuations on cash held	**(26,837)**	(14,092)
Cash and cash equivalents at beginning of period	**(980,301)**	(1,348,708)
Cash and cash equivalents at end of period	**(1,294,390)**	(1,075,775)

STATEMENT OF CASH FLOWS *(continued)*
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

	Banking Group	
	Unaudited 9 months ended	
Dollars in Thousands	**30.09.14**	30.09.13
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**659,983**	536,555
Advances to banks – demand	**17,078**	15,514
Advances to customers – demand	**243,333**	252,022
Balance due from related parties – demand	**8,790**	30,568
Balance due to related parties – demand	**(81,574)**	(77,571)
Deposits by banks – demand	**(422,484)**	(118,150)
Deposits by customers – demand	**(1,719,516)**	(1,714,713)
	(1,294,390)	(1,075,775)

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

Notes to and forming part of the Interim Financial Statements

1. Statement of Accounting Policies

GENERAL ACCOUNTING POLICIES

Reporting Entity

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

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

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

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

HSBC Investments New Zealand Limited
This New Zealand incorporated entity provides fund management services to customers and commenced trading operations in June 2008. HSBC Investments New Zealand Limited (HINZ) is wholly owned by HSBC Asia Pacific Holdings (UK) Limited which is wholly owned by HBAP. The unit trusts for which the Company has acted as Manager were closed on 31 October 2014. As a result, the Company is ceasing to trade and no longer continues as a going concern. The individual accounts of HINZ have not been prepared on a going concern basis to reflect the likely discontinuation of operations. This has had no impact on the Banking Group financial statements.

HSBC Cash Fund
The HSBC Cash Fund was a unit trust set up in June 2008 following the introduction by the New Zealand Inland Revenue of the Portfolio Investment Entity ("PIE") regime. The HSBC Cash Fund was managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Cash Fund was administered in accordance with the trust deed. All funds received into the HSBC Cash Fund were placed with the Branch and were included in the Banking Group's financial results as Customer Deposits. The HSBC Cash Fund was closed in July 2013.

HSBC Term Fund
The HSBC Term Fund was a unit trust, first set up in April 2009, following the introduction by the New Zealand Inland Revenue of the Portfolio Investment Entity ("PIE") regime. The HSBC Term Fund was managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Term Fund was administered in accordance with the trust deed. All funds received into the HSBC Term Fund were placed with the Branch and were included in the Banking Group's financial results as Customer Deposits. The HSBC Term Fund was closed in May 2013.

Non-Banking Group Entities

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

HSBC International Trustee (New Zealand) Limited and ***HSBC International Trustee Limited, New Zealand Branch*** provide trustee services to an international client base. HSBC International Trustee (New Zealand) Limited is a wholly owned subsidiary of Bermuda Asia Pacific Holdings Limited, incorporated in the Cook Islands. HSBC International Trustee Limited is a body corporate incorporated in British Virgin Islands. The respective directors are winding down the company and branch, accordingly, they no longer continue on a going concern basis.

Non-controlled Structured Entities

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

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

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

1. Statement of Accounting Policies *(continued)*

Non-controlled Structured Entities *(continued)*

HSBC Global Unit Trusts *(continued)*
The HSBC Global Unit Trusts were managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Global Unit Trusts were administered in accordance with the trust deed. Funds received into the HSBC Global Unit Trusts were 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 were four funds offered; HSBC China Fund, HSBC BRIC Fund, HSBC India Fund and HSBC Asia ex Japan Fund. The HSBC Global Unit Trusts were closed on 31 October 2014.

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

The HSBC World Selection Funds were managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC World Selection Funds were administered in accordance with the trust deed. Funds received into the HSBC World Selection Funds were 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 were three funds offered; HSBC World Selection – Foundation Fund, HSBC World Selection – Frontier Fund, and HSBC World Selection – Horizon Fund. The HSBC World Selection Funds were closed on 31 October 2014.

Basis of Consolidation

Structured entities

The Banking Group has established the following structured entities: the HSBC Cash Fund, the HSBC Term Fund, the HSBC Global Unit Trusts and the HSBC World Selection Funds.

The Banking Group does not have any direct or indirect unit holding in these entities. A structured entity is consolidated when the Banking Group is exposed, or has rights, to variable returns from its involvement with the structured entity and has the power to affect those returns. The structured entities controlled by the Banking Group are established under terms that impose strict limitations on the decision making powers of the structured entities management and operates in a predetermined way such that virtually all rights, obligations and aspects of their activities are controlled through these terms.

Transactions eliminated on consolidation

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

Basis of Reporting

These interim financial statements are prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) ("the Order"), the Reserve Bank of New Zealand Act 1989, and NZ IAS 34 Interim Financial Reporting ("NZ IAS 34") and do not include all the disclosures required for full annual financial statements. These interim financial statements are condensed financial statements in accordance with NZ IAS 34.

Measurement Base

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

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

1. Statement of Accounting Policies *(continued)*

Particular Accounting Policies

These interim financial statements have been prepared in accordance with NZ IAS 34 and should be read in conjunction with the Disclosure Statement for the year ended 31 December 2013.

Except as described below, the same accounting policies have been followed in these interim financial statements as were applied in the presentation of the Disclosure Statement for the year ended 31 December 2013. The following changes in accounting policies are also expected to be reflected in the Banking Group's financial statements for the year ended 31 December 2014.

Changes in Accounting Policies

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

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

All other accounting policies have not changed and are the same as those applied by the Banking Group in the Disclosure Statement for the year ended 31 December 2013.

Comparative Figures

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

Risk Management

There has been no material change during the nine months ended 30 September 2014 to the Banking Group's policies for managing risks in relation to credit, currency, interest rates, equity, liquidity or any material business risk to which the Banking Group is exposed.

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

	Banking Group Unaudited 9 months ended	
Dollars in Thousands	**30.09.14**	30.09.13
2. Net trading income		
Foreign exchange gains	**8,254**	10,042
Revaluation of derivatives	**95**	1,103
Credit valuation adjustments on derivatives	**307**	(2,288)
Debit valuation adjustments on derivatives	**(1,659)**	6,589
Gain/ (Loss) on hedging instrument in fair value hedge	**(1,044)**	2,947
Gain/ (Loss) on hedged item on fair value hedge	**1,054**	(2,908)
	7,007	15,485
3. Other net operating income		
Fee and commission income	**29,138**	33,028
Fee and commission expense	**(3,278)**	(3,740)
Gain/ (loss) on disposal of equipment, fixtures and fittings	**-**	8
	25,860	29,296

		Banking Group	
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.09.14**	30.09.13	31.12.13

4. Related party balances

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

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

	Unaudited 30.09.14	Unaudited 30.09.13	Audited 31.12.13
Assets			
Amounts due from related parties	**490,944**	429,916	308,868
Derivative financial instruments – assets	**1,210**	44,716	29,488
Total related party assets	**492,154**	474,632	338,356
Liabilities			
Amounts due to related parties	**813,604**	722,527	808,696
Derivative financial instruments – liabilities	**82,957**	1,224	1,109
Total related party liabilities	**896,561**	723,751	809,805

5. Additional financial disclosures on the statement of financial position

	Unaudited 30.09.14	Unaudited 30.09.13	Audited 31.12.13
Total interest earning and discount bearing assets	**4,974,974**	4,685,335	4,833,643
Total interest and discount bearing liabilities	**4,717,822**	4,503,401	4,665,265
Total liabilities net of amounts due to related parties	**4,224,966**	4,178,992	4,243,409
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligation to derivative counterparties	**12,300**	-	-

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 9 months ended 30.09.14					
Dollars in Thousands	**RBWM**	**CMB**	**GBM**	**Total Reportable Segments**	**Reconciling items**	**Consolidated**
Operating income	**25,200**	**55,212**	**14,277**	**94,689**	**4,710**	**99,399**
Operating profit before tax	**9,893**	**49,846**	**6,427**	**66,166**	**4,687**	**70,853**

	Banking Group					
	Unaudited 9 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 before tax	5,437	39,418	12,447	57,302	5,237	62,539

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

7. Asset quality

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.09.14**	30.09.13	31.12.13

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

Gross individually impaired assets [1]	**79,534**	2,413	141,964
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	**40,317**	49,533	49,533
New and additional provisions charged to profit or loss	**85**	358	40,914
Provisions released during the period to profit or loss	**(14,454)**	(1,166)	(1,246)
Write-offs	**(5)**	(7,370)	(7,410)
Discount unwind [2]	**(4,616)**	(12)	(590)
Discount unwind [2] – sale of portfolio of impaired loans	**-**	(61)	(61)
Provisions released – sale of portfolio of impaired loans	**-**	(40,823)	(40,823)
Balance at the end of the period	**21,327**	459	40,317
Collective provision for loan impairment			
Balance at the beginning of the period	**8,391**	3,817	3,817
Additional provision charged to profit or loss	**3,300**	1,007	5,753
Provisions released during the period to profit or loss	**(4,115)**	(774)	(1,179)
Balance at the end of the period	**7,576**	4,050	8,391
Total provisions for loan impairment	**28,903**	4,509	48,708

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

	Banking Group		
	Unaudited		Audited
	9 months ended		Year ended
Dollars in Thousands	**30.09.14**	30.09.13	31.12.13
Profit or loss charge / (credit)			
Specific provisions for impairment against advances	**85**	358	40,914
Collective provisions for impairment against advances	**3,300**	1,007	5,753
Total provisions for impairment against advances	**3,385**	1,365	46,667
Specific provisions released	**(14,454)**	(1,166)	(1,246)
Collective provisions released	**(4,115)**	(774)	(1,179)
Total provisions released no longer required	**(18,569)**	(1,940)	(2,425)
Net increase in provisions for impairment against advances	**(15,184)**	(575)	44,242
Recoveries of amounts written off in previous period	**(890)**	(1,498)	(1,552)
	(16,074)	(2,073)	42,690

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

8. Additional mortgage information

The loan-to-valuation ratio is calculated as the loan value divided by the property value. The basis of calculation has been updated in the current period to use the unadjusted recorded property value as opposed to an adjusted property value used for internal purposes. Comparative data has been restated on the same basis. As a result of the restatement the 'Does not exceed 80%', 'Exceeds 80% and not 90%' and 'Exceeds 90%' exposures increased $25.3m, decreased $15.1m and decreased $10.2m, respectively, at 30 September 2013. The 31 December 2013 data was restated in the 30 June 2014 financial statements.

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 2014 (Unaudited)				
Value of exposures on balance sheet	**1,021.7**	**18.7**	**1.8**	**1,042.2**
Value of exposures off balance sheet	**23.8**	**0.5**	**0.5**	**24.8**
Total value of exposures	**1,045.5**	**19.2**	**2.3**	**1,067.0**
30 September 2013 (Unaudited)				
Value of exposures on balance sheet	1,001.7	16.3	2.7	1,020.7
Value of exposures off balance sheet	27.5	0.0	0.0	27.5
Total value of exposures	1,029.2	16.3	2.7	1,048.2
31 December 2013 (Audited)				
Value of exposures on balance sheet	1,036.0	21.8	2.7	1,060.5
Value of exposures off balance sheet	25.2	0.0	0.0	25.2
Total value of exposures	1,061.2	21.8	2.7	1,085.7

9. Fair value of financial instruments

Determination of fair value of financial instruments carried at fair value

Fair values are determined according to the following hierarchy:

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

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

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.

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	**30.09.14**	**30.09.14**	**30.09.14**	**30.09.14**
	Level 1	**Level 2**	**Level 3**	**TOTAL**
ASSETS				
Debt and equity securities	**308,936**	**214,451**	**22**	**523,409**
Derivatives financial instruments	**-**	**141,664**	**-**	**141,664**
LIABILITIES				
Derivatives financial instruments	**-**	**130,907**	**-**	**130,907**

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

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

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

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

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

	Banking Group **Unaudited 30.09.14**		
Dollars in Thousands	**Assets Available-For-sale**	**Assets Derivatives**	**Liabilities Derivatives**
Balance at the beginning of the period	**22**	**-**	**-**
Balance at the end of the period	**22**	**-**	**-**

	Banking Group Unaudited 30.09.13		
Dollars in Thousands	Assets Available-For-sale	Assets Derivatives	Liabilities Derivatives
Balance at the beginning of the period	22	-	-
Balance at the end of the period	22	-	-

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

Sources of uncertainty for fair value measurement in level 3

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

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

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

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

Methodologies

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

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

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

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

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

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

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

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

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

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

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

Dollars in Thousands	***Banking Group***		*Banking Group*	
	Unaudited 30.09.14	**Unaudited 30.09.14**	Unaudited 30.09.13	Unaudited 30.09.13
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
ASSETS				
Advances to customers	**3,288,292**	**3,295,355**	3,297,703	3,298,784
Total financial assets not carried at fair value	**3,288,292**	**3,295,355**	3,297,703	3,298,784
Total financial assets whose carrying value approximates fair value	**1,857,394**	**1,857,394**	1,597,061	1,597,061
Total financial assets	**5,145,686**	**5,152,749**	4,894,764	4,895,845
Total non-financial assets	**26,294**		27,512	
Total assets	**5,171,980**		4,922,276	
LIABILITIES				
Customer deposits	**3,011,463**	**3,013,410**	3,330,927	3,347,001
Debt securities	**676,118**	**676,103**	553,113	555,583
Amounts due to related parties	**813,604**	**813,825**	722,527	723,721
Total financial liabilities not carried at fair value	**4,501,185**	**4,503,338**	4,606,567	4,626,305
Total financial liabilities whose carrying value approximates fair value	**609,411**	**609,411**	289,318	289,318
Total financial liabilities	**5,110,596**	**5,112,749**	4,895,885	4,915,623
Total non-financial liabilities	**10,931**		6,858	
Total liabilities	**5,121,527**		4,902,743	

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

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

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

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

10. 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, and registered certificates of deposits issued by other banks. The Banking Group holds the following liquid assets in order to manage its liquidity risk:

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.09.14**	30.09.13	31.12.13
Demand balances with the central bank	**659,648**	536,555	762,856
Available-for-sale debt securities and treasury bills	**523,387**	425,981	399,585
	1,183,035	962,536	1,162,441

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 in the second half of the 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 2014 (Unaudited)		
Interest rate risk	**16.75**	**1.34**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**
Peak exposure period 1 July 2014 to 30 September 2014 (Unaudited)		
Interest rate risk	**58.13**	**4.65**
Foreign currency risk	**0.63**	**0.05**
Equity risk	**-**	**-**

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

12. Market risk exposures (continued)

	Banking Group	
Dollars in Millions	*Implied risk weighted Exposure*	*Notional capital charge*
Exposure at 31 December 2013 (Unaudited)		
Interest rate risk	44.13	3.53
Foreign currency risk	0.13	0.01
Equity risk	-	-
Peak exposure period 1 July 2013 to 31 December 2013 (Unaudited)		
Interest rate risk	49.38	3.95
Foreign currency risk	1.88	0.15
Equity risk	-	-

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 30.09.14**	Unaudited 30.09.13	Audited 31.12.13
Direct credit substitutes	**48,963**	62,056	53,264
Transaction related contingent items	**208,352**	267,684	252,154
Trade related contingent items	**114,032**	101,751	132,773
Commitments, maturity one year or more	**1,152,565**	880,878	922,668
Commitments, maturity up to one year	**577,066**	608,534	650,657
	2,100,978	1,920,903	2,011,516
Capital commitments			
Contracted expenditure	**58**	-	80

14. Insurance and non-financial activities

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

15. Subsequent events

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

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

16. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Unaudited 6 months ended 30.06.14**	Unaudited 6 months ended 30.06.13	Audited 12 months ended 31.12.13
Profitability			
Net profit after tax	**49,904**	87,503	129,055
Net profit after tax over the previous 12 month period as a percentage of average total assets	**1.4%**	2.2%	2.1%
Size			
Total assets	**6,765,663**	5,981,060	6,439,355
Percentage increase in total assets over the previous 12 month period	**13.1%**	3.8%	6.2%
Asset quality			
Individually impaired assets	**12,991**	10,925	11,795
Individual impairment provision against advances to customers	**(5,051)**	(4,785)	(5,007)
Collective impairment provision against advances to customers	**(4,542)**	(4,238)	(4,494)
Individually impaired assets / total assets	**0.2%**	0.2%	0.2%
Individual impairment provision / individually impaired assets	**38.9%**	43.8%	42.5%

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 2014, 31 December 2013 and 30 June 2013.

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

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

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

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

Directors' and New Zealand Chief Executive Officer's Statements

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

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

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

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

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

over the nine months ended 30 September 2014.

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

Noel Gerard McNamara
Chief Executive Officer
New Zealand Branch

20 November 2014

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