The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 June 2019

HSBC

Disclosure Statement
For the six months ended 30 June 2019

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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. The entities that have been considered for aggregation to form the Banking Group are detailed in the Notes to and forming part of the Financial Statements, Note 1: Statement of Accounting Policies.

Overseas Banking Group

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

Ultimate Holding Company

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

Access to parental disclosures

The most recent publicly available financial statements of HBAP Group and HSBC Holdings plc ("Group") can be found at HSBC Holdings plc's website, www.hsbc.com.

Ranking of Local Creditors in a Winding-up

Under Section 265(1) (db) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of the Hong Kong SAR, as amended in 2010, 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 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.

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.

New Zealand Regulatory Environment

The Financial Markets Authority (FMA) and the Reserve Bank of New Zealand (RBNZ) instigated a review of conduct and culture in the New Zealand banking industry in May 2018, with the intention of assessing whether the misconduct that had been highlighted through the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry also existed in the New Zealand banking industry. Eleven banks were engaged including the Banking Group. In November 2018, the FMA and RBNZ issued a report of their findings following the review as well as individual letters to the eleven banks setting out specific findings and recommendations. The Banking Group provided a response to that letter in March 2019 and continues to address the recommendations from the FMA and RBNZ. Generally, in New Zealand there is increased regulatory scrutiny as well as ongoing legislative and regulatory change that is impacting the financial industry.

Auditor

New Zealand Banking Group
PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland
New Zealand

Overseas Banking Group
PricewaterhouseCoopers
22nd floor
Prince’s Building
10 Chater Road
Hong Kong SAR

New Zealand Chief Executive Officer/Responsible Person

The New Zealand Chief Executive Officer, Christopher David Gosse Russell, 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, Christopher David Gosse Russell is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

Christopher David Gosse Russell
Chief Executive Officer New Zealand Branch. Joined the HSBC Group in 2005 and resides in New Zealand.
He has a Master of Business Administration from the University of 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:

Peter Tung Shun Wong (Deputy Chairman and Chief Executive)
Bachelor of Arts, Indiana University; Master of Business Administration, Indiana University;
and Master of Science, Indiana University

[#] Laura May Lung Cha, GBM (Deputy Chairman)
Bachelor of Arts, University of Wisconsin-Madison; Juris Doctor, University of Santa Clara Law School;
and admitted to practice in the State of California and in Federal Courts

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

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

* Graham John Bradley
Bachelor of Arts, Bachelor of Laws (Hons I), Sydney University;
Master of Laws, Harvard University
Company Director

Louisa Wai Wan Cheang
Bachelor of Social Sciences, The University of Hong Kong
Vice-Chairman and Chief Executive, Hang Seng Bank Limited

Dr Christopher Wai Chee Cheng, GBS, OBE
Bachelor of Business Administration, University of Notre Dame; Master of Business Administration, Columbia University; Doctorate in Social Sciences honoris causa, The University of Hong Kong; Honorary Degree of Doctor of Business Administration, Hong Kong Polytechnic University
Chairman, Wing Tai Properties Limited

Dr Raymond Kuo Fung Ch'ien, GBS, CBE
Bachelor of Arts, Rockford College; Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania
Independent Non-executive Chairman, Hang Seng Bank Limited

Yiu Kwan Choi
Higher Certificate in Accountancy, Hong Kong Polytechnic University
Fellow Member of The Hong Kong Institute of Bankers
Company Director

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

* Jennifer Xinzhe Li
Bachelor of Arts, Tsinghua University, Beijing, China;
Master of Business Administration, University of British Columbia, Vancouver, Canada
General Managing Partner, Changcheng Investment Partners

^ Victor Tzar Kuoi Li
Bachelor of Science degree in Civil Engineering and Master of Science degree in Civil Engineering, Stanford University; Honorary Degree, Doctor of Laws, honoris causa (LL.D.), University of Western Ontario
Chairman and Managing Director of CK Asset Holdings Limited,
and Chairman and a Group Co-Managing Director of CK Hutchison Holdings Limited

* Bin Hwee Quek (née Chua), PBM, BBM, JP
Bachelor of Accountancy (Hons), The University of Singapore
Chartered Accountant, Institute of Singapore Chartered Accountants
Company Director

Kevin Anthony Westley, BBS
Bachelor of Arts (Hons), University of London (LSE)
Chartered Accountant, Institute of Chartered Accountants in England and Wales
Company Director

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

* Tan Sri Dr Francis Sock Ping Yeoh, CBE
Bachelor of Science (Hons) in Civil Engineering, University of Kingston;
and Honorary Doctorate of Engineering, University of Kingston
Executive Chairman, YTL Corporation Berhad

independent non-executive Director
^ non-executive Director

Country of Residence

With the exception of those denoted with an asterisk ('*'), all directors reside in Hong Kong. Zia Mody resides in India, Graham John Bradley resides in Australia, Tan Sri Dr Francis Sock Ping Yeoh resides in Malaysia, Jennifer Xinzhe Li resides in China, and Bin Hwee Quek (née Chua) resides in Singapore.

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

Change in Board of Directors for HBAP

Marjorie Mun Tak Yang retired as an independent non-executive director of the Board with effect from the passing of the written resolutions of HBAP's shareholder in lieu of holding the 2019 Annual General Meeting on 4 April 2019.

John Michael Flint stepped down as a non-executive Director and the Chairman of the Board with effect from 5 August 2019.

There have been no other changes in the composition of the Board of Directors since 31 December 2018.

Directors' Policy on Conflicts of Interests

The Board has a conflicts of interest policy. It sets out HBAP's policy on the notification, review or approval process of Directors' conflicts or potential conflicts of interest and the Board's approach to dealing with any non-compliance with the policy. Directors are required to notify all external directorships and appointments, and any other conflict or potential conflicts of interest. The notified matter will be referred to the Board for its noting or consideration in accordance with the conflicts of interest policy. In addition, under Division 5 of Part 11 of the Companies Ordinance (Cap. 622) of the Laws of Hong Kong, Directors who are interested either directly or indirectly in a transaction, arrangement or contract, or a proposed transaction, arrangement or contract that is significant to HBAP's business shall, if such Director's interest is material, declare the nature and extent of their interest as soon as reasonably practicable.

Article 100(h) of HBAP's Articles of Association states:

"The office of a Director shall automatically be vacated if the Director acts in contravention of the Company's conflicts of interest policy adopted by the Board from time to time and the Board has resolved that his or her office be vacated."

General Disclosures *(continued)*

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.	Aa3 (stable outlook)	Aa2 (negative outlook)	27 September 2017
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (Rating Watch Negative)	AA- (stable outlook)	1 March 2019

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 2019.

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 on and after 1 January 2015
Common Equity Tier 1 capital	4.5 %
Tier 1 capital	6 %
Total capital	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 amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

9. 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 amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

10. 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.

Conditions of Registration *(continued)*

In these conditions of registration, –

“banking group” 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.

“business of the registered bank in New Zealand” 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.

“generally accepted accounting practice” has the same meaning as in section 8 of the Financial Reporting Act 2013.

“liabilities of the registered bank in New Zealand” 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.

In conditions of registration 8 to 10,—

"loan-to-valuation ratio", "non property-investment residential mortgage loans", “property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", 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 January 2019, and where the version of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.

“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 June 2019.

Changes to Conditions of Registration since the 31 December 2018 Disclosure Statement

The Conditions of Registration were amended on 1 January 2019 to adjust the LVR thresholds applicable in clauses 8 and 9.

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Banking Group Unaudited 6 months ended	
Dollars in Thousands	Note	**30.06.19**	30.06.18
Interest income		**90,810**	94,342
Interest expense		**(52,416)**	(50,346)
Net interest income		**38,394**	43,996
Net trading income	3	**3,884**	5,562
Other net operating income	4	**17,764**	19,130
Net operating income before expected credit loss		**60,042**	68,688
Change in expected credit loss	8	**1,949**	3,844
Net operating income		**61,991**	72,532
Operating expenses		**(35,478)**	(33,172)
Operating profit before tax		**26,513**	39,360
Income tax expense		**(7,479)**	(11,040)
Profit after tax attributable to the owners of the Banking Group		**19,034**	28,320
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
Fair value gains through other comprehensive income		**2,877**	25
Income taxes		**(805)**	(6)
Other comprehensive income / (expense) for the period		**2,072**	19
Total comprehensive income for the period attributable to the owners of the Banking Group		**21,106**	28,339

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

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Banking Group **Unaudited** **6 months ended**	
Dollars in Thousands	**30.06.19**	30.06.18
Head Office Account *		
At beginning of the period	**23,099**	22,747
Changes in initial application of NZ IFRS 9	**-**	(4,486)
Restated balance at beginning of the period	**23,099**	18,261
Repatriation to Head Office	**-**	(18,261)
Profit after tax	**19,034**	28,320
At end of the period	**42,133**	28,320
Available-for-Sale Reserve		
At beginning of the period	**-**	1,050
Changes in initial application of NZ IFRS 9	**-**	(1,050)
Restated balance at beginning of the period	**-**	-
At end of the period	**-**	-
Financial assets at Fair Value through Other Comprehensive Income Reserve		
At beginning of the period	**1,086**	-
Changes in initial application of NZ IFRS 9	**-**	1,055
Restated balance at beginning of the period	**1,086**	1,055
Fair value changes taken to equity	**3,104**	25
Transferred to the income statement	**(227)**	-
Tax on movements and transfers	**(805)**	(6)
At end of the period	**3,158**	1,074
Share-based Payment Reserve		
At beginning of the period	**1,656**	1,559
Transferred to the income statement	**-**	-
Movement in share-based payment arrangements	**(3)**	114
At end of the period	**1,653**	1,673
Equity at end of the period	**46,944**	31,067

* The Head Office account is interest free, repayable at the discretion of the Branch and subordinated to all other debts.

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

BALANCE SHEET
AS AT 30 JUNE 2019

			Banking Group	
Dollars in Thousands	Note	**Unaudited 30.06.19**	Unaudited 30.06.18	Audited 31.12.18
ASSETS				
Cash and demand balances with central bank		**726,428**	658,488	529,852
Advances to banks		**30,285**	9,873	6,704
Financial investments		**470,295**	380,118	421,975
Derivative financial instruments		**27,443**	53,203	49,986
Advances to customers	5	**4,260,343**	4,257,557	4,124,212
Amounts due from related parties	15	**698,249**	751,622	855,678
Other assets		**22,630**	22,090	24,415
Property, plant and equipment		**3,761**	1,219	1,248
Deferred tax asset		**678**	1,054	1,180
Goodwill and intangible assets		**15,991**	13,888	14,505
Total Assets		**6,256,103**	6,149,112	6,029,755
LIABILITIES				
Deposits by banks		**349,756**	315,983	228,503
Derivative financial instruments		**29,345**	53,917	51,135
Customer deposits	12	**3,477,844**	3,058,429	3,058,901
Debt securities		**619,897**	589,733	689,748
Amounts due to related parties	15	**1,688,040**	2,055,783	1,921,719
Other liabilities		**44,052**	41,533	48,602
Current tax liabilities		**225**	2,667	5,306
Total Liabilities		**6,209,159**	6,118,045	6,003,914
Net Assets		**46,944**	31,067	25,841
EQUITY				
Head Office Account		**42,133**	28,320	23,099
Other Reserves		**3,158**	1,074	1,086
Share-based Payment Reserve		**1,653**	1,673	1,656
Total Equity		**46,944**	31,067	25,841

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

STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Banking Group **Unaudited 6 months ended**	
Dollars in Thousands	**30.06.19**	30.06.18
Cash flows from / (to) operating activities		
Interest received	**87,095**	97,312
Fees and commissions	**17,197**	17,218
Realised trading gain	**4,801**	8,354
Interest paid	**(47,658)**	(44,484)
Operating expenses	**(28,671)**	(38,979)
Taxation paid	**(12,863)**	(11,776)
Net cash flows from operating activities before changes in operating assets and liabilities	**19,901**	27,644
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	**(134,160)**	186,569
Amounts due from related parties	**157,565**	113,299
Other assets	**5,809**	2,527
Other liabilities	**(4,321)**	(2,554)
Debt securities issued / (repaid)	**(70,135)**	199,196
Deposits by banks	**120,886**	39,947
Customer deposits	**418,943**	(95,890)
Amounts due to related parties	**(245,431)**	(423,327)
Net change in operating assets and liabilities	**249,156**	19,767
Net cash flows from / (to) operating activities	**269,057**	47,412
Cash flows from / (to) investing activities		
Financial investments purchased	**(100,806)**	(148,402)
Financial investments sold	**-**	-
Financial investments matured	**156,000**	9,500
Acquisition of property, plant and equipment	**(1)**	(78)
Acquisition of intangible assets	**(1,597)**	-
Net cash flows to investing activities	**53,596**	(138,980)
Cash flows to financing activities		
Repatriation to head office	**-**	(18,261)
Principal payments on lease liabilities	**(900)**	-
Net cash flows to financing activities	**(900)**	(18,261)
Net increase / (decrease) in cash and cash equivalents	**321,753**	(109,829)
Effect of exchange rate fluctuations on cash held	**(19)**	167
Cash and cash equivalents at beginning of the period	**536,083**	776,974
Cash and cash equivalents at end of the period	**857,817**	667,312

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

STATEMENT OF CASH FLOWS *(continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.19**	30.06.18
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**726,428**	658,488
Items in the course of collection from other banks[1]	**35**	1
Gross advances to banks – demand	**30,250**	9,877
Treasury bills with initial maturity less than 3 months[2]	**101,943**	-
Less: items in the course of transmission to other banks[1]	**(839)**	(1,054)
	857,817	667,312

1 *Items in the course of collection from / to other banks are presented on the balance sheet within Advances to banks and Deposits by banks respectively.*
2 *Treasury bills are presented on the balance sheet within Financial investments.*

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

Notes to and forming part of the Financial Statements

1. Statement of Accounting Policies

Reporting Entity

These financial statements are for The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group ("Banking Group").

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial periods presented, unless otherwise stated.

Intra-group balances are eliminated in preparing the Banking Group's financial statements (if any). 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.

Basis of Reporting

These financial statements are general purpose financial statements prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

These interim financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities, and are presented in accordance with New Zealand equivalent to International Accounting Standard 34 Interim Financial Reporting ("NZ IAS 34"). These interim financial statements are condensed financial statements in accordance with NZ IAS 34 and do not include all the disclosures required for full annual financial statements. These financial statements comply with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

Measurement Base

These financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. They are prepared on a going concern basis and the accrual basis of accounting has been adopted. The presentation currency and functional currency is New Zealand dollars. All amounts are rounded to thousands of New Zealand dollars and all references to "$" is to New Zealand dollars unless otherwise stated.

Comparative Figures

These financial statements include comparative information as required by NZ IAS 34 and the Order.

Authorisation of financial statements

These financial statements were authorised for issue by the directors of The Hongkong and Shanghai Banking Corporation Limited on 21 August 2019.

Changes in Accounting Policies

Except as described below, the accounting policies applied by the Banking Group for these interim financial statements are consistent with those described in note 1 of the 31 December 2018 Disclosure Statement, as are the methods of computation.

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

1. Statement of Accounting Policies *(continued)*

Implementation of NZ IFRS 16 Leases

The Banking Group has adopted the requirements of New Zealand Equivalent to International Financial Reporting Standard 16 Leases (NZ IFRS 16) from 1 January 2019. The Banking Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' in accordance with New Zealand Equivalent to International Accounting Standard 17 Leases (NZ IAS 17). These liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019. The associated right of use (ROU) assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on balance sheet at 31 December 2018. In addition, the following practical expedients permitted by the standard were applied:

- Reliance was placed on previous assessments on whether leases were onerous
- Operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were treated as short-term leases; and
- Initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

The differences between NZ IAS 17 and NZ IFRS 16 are summarised in the table below:

NZ IAS 17	NZ IFRS 16
Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.	Leases are recognised as a ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis. In determining lease term, the Banking Group considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years. In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. The rates are determined by adjusting swap rates with funding spreads and cross currency basis where appropriate.

The Banking Group adopted the requirements of NZ IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. In relation to the operating lease that were under NZ IAS 17 'Leases', the adoption of the standard increased assets by $3.6 million reported under 'Property, plant and equipment' and increased financial liabilities by the same amount reported under 'Other liabilities' with no effect on net assets or retained earnings.

Future operating lease commitments of $21.6 million disclosed in the 31 December 2018 Disclosure Statement are not included in the ROU asset or lease liability on adoption of NZ IFRS 16 as this lease has not yet commenced.

2. Risk Management

There were no material changes to the Banking Group's policies for managing risks in relation to credit, currency, interest rates, equity, liquidity, operational or any other material business risk to which the Banking Group is exposed during the six months ended 30 June 2019.

The Banking Group continued to strengthen its approach to managing operational risk, as set out in the Operational Risk Management Framework. The framework sets out our governance and appetite and view of non-financial risks that matter the most to the Banking Group and associated controls.

The Banking Group continued to strengthen its management of conduct and embed conduct considerations as a key part of risk management and continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for customers and preserve market integrity.

The Banking Group continue to enhance its financial crime risk management capabilities and the effectiveness of our financial crime controls. The Group is maintaining investment in the next generation of tools to fight financial crime through the application of advanced analytics and artificial intelligence.

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

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.19**	30.06.18
3. Net trading income		
Foreign exchange gains / (losses)	**4,606**	5,166
Gains / (losses) on revaluation of derivatives	**(677)**	418
Credit valuation adjustments on derivatives	**-**	(7)
Debit valuation adjustments on derivatives	**(11)**	8
Gain/ (loss) on hedging instrument in fair value hedge	**(261)**	(17)
Gain/ (loss) on hedged item in fair value hedge	**227**	(6)
	3,884	5,562

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.19**	30.06.18
4. Other net operating income		
Fee and commission income	**19,079**	20,402
Fee and commission expense	**(1,687)**	(1,606)
Other	**372**	334
	17,764	19,130

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.06.19**	30.06.18	31.12.18
5. Advances to customers			
Overdrafts	**85,596**	125,416	65,328
Mortgages	**1,939,595**	1,738,591	1,769,794
Term lending	**2,128,673**	2,259,599	2,160,208
Non-eligible bills	**110,081**	121,961	133,362
Money market loans	**-**	17,600	-
Total gross advances to customers	**4,263,945**	4,263,167	4,128,692
Expected credit loss (ECL) allowance	**(3,602)**	(5,610)	(4,480)
Total net advances to customers	**4,260,343**	4,257,557	4,124,212

6. Additional mortgage information

Residential mortgages by loan-to-value ratio (LVR)

LVR Range	*Banking Group* **Principal Amount**			
Dollars in Thousands	**Does not exceed 80%**	**Exceeds 80% and not 90%**	**Exceeds 90%**	**Total**
30 June 2019 (Unaudited)				
Value of exposures on balance sheet	**1,902,701**	**35,338**	**1,556**	**1,939,595**
Value of exposures off balance sheet	**216,352**	**257**	**30**	**216,639**
Total value of exposures	**2,119,053**	**35,595**	**1,586**	**2,156,234**

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

Dollars in Thousands	***Banking Group*** **Unaudited** **30.06.19**
7. Asset quality – Gross exposure	
Gross exposure of past due but not individually impaired advances to customers	
Less than 30 days	**24,359**
At least 30 days but less than 60 days	**1,414**
At least 60 days but less than 90 days	**-**
At least 90 days	**-**
Total past due but not individually impaired	**25,773**

Wholesale – Gross exposures / nominal amount of advances to banks and customers, including loan commitments and financial guarantees by expected credit loss allowance stage

	6 months ended 30 June 2019			
	Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Total wholesale exposures				
As at 1 January 2019	**4,136,388**	**157,759**	**2,920**	**4,297,067**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**(420,435)**	**420,435**	**-**	**-**
Transfer from Stage 2 to 1	**291,211**	**(291,211)**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**		**-**
Net further lending/repayment	**390,233**	**(50,268)**	**(485)**	**339,480**
Asset derecognised (including final repayments)	**(577,385)**	**(86,951)**	**-**	**(664,336)**
New financial assets originated or purchased	**441,130**	**-**	**-**	**441,130**
Assets written off	**-**	**-**	**-**	**-**
As at 30 June 2019 – Total wholesale credit exposure	**4,261,142**	**149,764**	**2,435**	**4,413,341**

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

7. Asset quality – Gross exposure *(continued)*

Retail – Gross exposures / nominal amount of advances to customers, including loan commitments and financial guarantees by expected credit loss allowance stage

	6 months ended 30 June 2019 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Total retail exposures				
As at 1 January 2019	1,762,622	39,835	2,512	1,804,969
Transfer of financial instruments:				
Transfer from Stage 1 to 2	(24,405)	24,405	-	-
Transfer from Stage 2 to 1	30,059	(30,059)	-	-
Transfer to Stage 3	(5,212)	(117)	5,329	-
Transfer from Stage 3	-	-	-	-
Net further lending/repayment	(28,324)	(3,566)	(310)	(32,200)
Asset derecognised (including final repayments)	(107,913)	(949)	-	(108,862)
New financial assets originated or purchased	301,398	-	-	301,398
Assets written off	-	-	-	-
As at 30 June 2019 – Total retail credit exposure	1,928,225	29,549	7,531	1,965,305

There are no assets under administration as at 30 June 2019. The aggregate amount as at 30 June 2019 of any undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired, before deducting allowances for credit impairment loss where applicable, is $226 thousand.

8. Asset quality – Expected Credit Loss

Wholesale - Expected credit loss on advances to banks and customers, including loan commitments and financial guarantees

	6 months ended 30 June 2019 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit loss allowance				
As at 1 January 2019	(2,132)	(3,114)	(906)	(6,152)
Transfer of financial instruments:				
Transfer from Stage 1 to 2	327	(327)	-	-
Transfer from Stage 2 to 1	(927)	927	-	-
Transfer to Stage 3	-	-	-	-
Transfer from Stage 3	-	-	-	-
Net re-measurement of ECL arising from transfer of stage	543	(145)	-	398
Net new lending and changes to risk parameters (model inputs)	342	660	524	1,526
Asset derecognised (including final repayments)	58	57	-	115
New financial assets originated or purchased	(176)	-	-	(176)
Assets written off	-	-	-	-
As at 30 June 2019 – total expected credit loss	(1,965)	(1,942)	(382)	(4,289)
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	(167)	(1,172)	(524)	(1,863)
Write-Off / (Recoveries)	-	-	-	-
Other movements	(5)	-	-	(5)
Total ECL profit or loss charge / (release) for the period	(172)	(1,172)	(524)	(1,868)

The movement in expected credit losses for other assets are excluded from the table above as they are not material.

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

8. Asset quality – Expected Credit Loss *(continued)*

Retail - Expected credit loss on advances to customers, including loan commitments and financial guarantees

	6 months ended 30 June 2019 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit loss allowance				
As at 1 January 2019	**(1,000)**	**(128)**	**(38)**	**(1,166)**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**13**	**(13)**	**-**	**-**
Transfer from Stage 2 to 1	**(70)**	**70**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net re-measurement of ECL arising from transfer of stage	**36**	**(1)**	**-**	**35**
Net new lending and changes to risk parameters (model inputs)	**125**	**(20)**	**(4)**	**101**
Asset derecognised (including final repayments)	**62**	**4**	**-**	**66**
New financial assets originated or purchased	**(162)**	**-**	**-**	**(162)**
Assets written off	**-**	**-**	**-**	**-**
As at 30 June 2019 – total expected credit loss	**(996)**	**(88)**	**(42)**	**(1,126)**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	**(4)**	**(40)**	**4**	**(40)**
Write-Off / (Recoveries)	**-**	**-**	**-**	**-**
Other movements	**-**	**-**	**-**	**-**
Total ECL profit or loss charge / (release) for the period	**(4)**	**(40)**	**4**	**(40)**

The movement in expected credit losses for other financial assets are excluded from the table above as they are not material.

Change in expected credit loss

	Banking Group **Unaudited** **6 months ended**	
Dollars in Thousands	**30.06.19**	30.06.18
Loans and advances to customers		
- New allowances net of allowance releases	**878**	4,614
- Recoveries of amounts previously written off	**-**	438
	878	5,052
Loan commitments and guarantees	**1,029**	(1,205)
Other financial assets	**42**	(3)
Change in expected credit loss	**1,949**	3,844

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

9. Asset quality – Financial Instruments by stage allocation

Dollars in Thousands	6 months ended 30 June 2019 Unaudited		
	Gross	Allowance for ECL	Net
Advances to customers at amortised cost			
- Stage 1	**4,123,507**	**(2,410)**	**4,121,097**
- Stage 2	**130,698**	**(768)**	**129,930**
- Stage 3	**9,740**	**(424)**	**9,316**
Advances to banks at amortised cost[1]			
- Stage 1	**30,251**	**(1)**	**30,250**
- Stage 2	**-**	**-**	**-**
- Stage 3	**-**	**-**	**-**
Loan and other credit-related commitments			
- Stage 1	**1,886,876**	**(514)**	**1,886,362**
- Stage 2	**28,274**	**(785)**	**27,489**
- Stage 3	**196**	**-**	**196**
Financial guarantees and similar contracts			
- Stage 1	**148,733**	**(36)**	**148,697**
- Stage 2	**20,341**	**(477)**	**19,864**
- Stage 3	**30**	**-**	**30**
At 30 June 2019	**6,378,646**	**(5,415)**	**6,373,231**

Balances related to Cash with central banks, Financial investments, Amounts due from related parties and Other assets do not have a material ECL balance and have not been included in the table above.

1. Advances to banks at Amortised Cost excludes 'Items in the course of collection from other banks'.

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

10. Concentrations of credit risk

Maximum exposure to credit risk

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

Dollars in Thousands	***Banking Group*** **Unaudited** **30.06.19**
On-balance sheet credit exposures	
Cash and demand balances with central banks	**726,428**
Advances to banks	**30,285**
Financial investments	**470,273**
Derivative financial instruments	**27,443**
Advances to customers	**4,260,343**
Amounts due from related parties	**698,249**
Other assets	**21,420**
Off-balance sheet credit exposures	**2,633,121**
Total credit exposures	**8,867,562**

Concentrations of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The following analysis of financial assets by industry sector is based on categories and definitions used by the Hong Kong Monetary Authority:

Concentrations of credit risk by industry	
Individual	**2,167,751**
Commercial and industrial	**1,429,270**
Commercial real estate and construction	**824,111**
Banks and financial institutions	**2,392,468**
Energy	**460,231**
Other	**1,593,731**
	8,867,562

Concentrations of credit risk by geographical area	
New Zealand	**7,341,464**
Hong Kong	**819,178**
Australia	**198,831**
China	**93,869**
United States	**140,948**
Other overseas	**273,272**
	8,867,562

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

Dollars in Thousands	**Banking Group Unaudited 30.06.19**
11. Concentrations of funding risk	
Concentrations of funding by product	
Deposits by banks	**349,756**
Customer deposits	**3,477,844**
Debt securities	**619,897**
Amounts due to related parties	**1,688,040**
	6,135,537
Concentrations of funding by industry	
Manufacturing	**796,891**
Wholesale and retail trade	**128,327**
Banking and finance	**2,875,195**
Property and business services	**175,290**
Individual	**1,807,562**
Other	**352,272**
	6,135,537
Concentrations of funding by geographical area	
New Zealand	**2,992,647**
China	**194,766**
Great Britain	**258,144**
Hong Kong	**1,786,024**
United States	**201,203**
Other overseas	**702,753**
	6,135,537

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.19**	Unaudited 30.06.18	Audited 31.12.18
12. Customer deposits			
Current accounts	**1,814,650**	2,012,052	1,813,605
Savings and deposit accounts	**1,661,545**	1,041,660	1,242,075
Other deposit accounts	**1,649**	4,717	3,221
Total customer deposits at amortised cost	**3,477,844**	3,058,429	3,058,901

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.19**	Unaudited 30.06.18	Audited 31.12.18
13. Additional financial disclosures on the balance sheet			
Total interest earning and discount bearing assets	**6,189,203**	6,063,007	5,938,422
Total interest and discount bearing liabilities	**5,908,797**	5,797,182	5,692,369
Total liabilities net of amounts due to related parties	**4,516,853**	4,038,718	4,065,584
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligations to derivative counterparties	**-**	-	-

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

14. Segment reporting

The Banking Group's operating segments are organised into three business segments representing the products and services offered to customers and a Corporate Centre. The Executive Committee, formed of senior management of each business unit, acts as the Banking Group's chief operating decision-maker and assesses the Banking Group's performance on this basis.

The Banking Group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expenses. Allocations include the cost of certain support services and functions to the extent they can be meaningfully attributed. Costs which cannot be allocated to business segments are included in Corporate Centre. Business segments also pay and receive interest to and from Balance Sheet Management. All transactions are undertaken on an arm's length basis.

The Banking Group operates primarily in New Zealand and predominately all revenues from and assets held with external customers are generated or held in New Zealand. The Banking Group does not rely on any single major customer for its revenue base.

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 investment banking operations.

- *Corporate Centre*
  Includes Balance Sheet Management, the results of our financing operations and central support costs with associated recoveries.

	Banking Group **Unaudited** **6 months ended 30.06.19**				
Dollars in Thousands	**RBWM**	**CMB**	**GBM**	**Corporate Centre**	**Consolidated**
Net interest income	**15,801**	**15,550**	**2,996**	**4,047**	**38,394**
Net trading income	**634**	**1,995**	**2,541**	**(1,286)**	**3,884**
Net fee and commission income	**(6)**	**12,590**	**3,389**	**1,419**	**17,392**
Other income	**-**	**372**	**-**	**-**	**372**
Operating income	**16,429**	**30,507**	**8,926**	**4,180**	**60,042**
Change in expected credit loss	**38**	**1,910**	**1**	**-**	**1,949**
Operating expense	**(14,144)**	**(15,825)**	**(4,517)**	**(992)**	**(35,478)**
Operating profit before tax	**2,323**	**16,592**	**4,410**	**3,188**	**26,513**
Advances to customers	**1,973,061**	**2,287,282**	**-**	**-**	**4,260,343**
Customer deposits	**1,848,864**	**1,395,548**	**233,432**	**-**	**3,477,844**

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

14. Segment reporting *(continued)*

	Banking Group Unaudited 6 months ended 30.06.18				
Dollars in Thousands	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	19,371	17,968	2,936	3,721	43,996
Net trading income	517	2,099	2,508	438	5,562
Net fee and commission income	111	14,485	3,521	679	18,796
Other income	-	334	-	-	334
Operating income	19,999	34,886	8,965	4,838	68,688
Change in expected credit loss	621	3,228	-	(5)	3,844
Operating expense	(13,475)	(14,611)	(4,340)	(746)	(33,172)
Operating profit before tax	7,145	23,503	4,625	4,087	39,360
Advances to customers	1,770,387	2,487,170	-	-	4,257,557
Customer deposits	1,818,232	1,033,009	207,188	-	3,058,429

	Banking Group Audited 12 months ended 31.12.18				
Dollars in Thousands	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	37,091	33,907	5,784	7,939	84,721
Net trading income	1,112	4,475	5,213	285	11,085
Net fee and commission income	458	30,917	6,845	(811)	37,409
Other income	1	487	-	8	496
Operating income	38,662	69,786	17,842	7,421	133,711
Change in expected credit loss	530	3,304	10	-	3,844
Operating expense	(27,218)	(28,878)	(8,508)	(1,397)	(66,001)
Operating profit before tax	11,974	44,212	9,344	6,024	71,554
Advances to customers	1,803,795	2,320,417	-	-	4,124,212
Customer deposits	1,846,117	990,371	222,413	-	3,058,901

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

	Banking Group		
Dollars in Thousands	**Unaudited 30.06.19**	Unaudited 30.06.18	Audited 31.12.18

15. 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 Banking Group, 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.

During the first half of 2019, the Group established HSBC Global Services (Hong Kong) Limited (the 'ServCo'), which is a fellow subsidiary of HBAP set up in Hong Kong as part of recovery and resolution planning to provide functional support services to the group. The ServCo supplies group shared services, such as IT operations processing to the Banking Group. These services were previously provided by HBAP.

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

Assets			
Amounts due from related parties	**698,249**	751,622	855,678
Derivative financial instruments – assets	**24,761**	29,601	36,700
Total related party assets	**723,010**	781,223	892,378
Liabilities			
Amounts due to related parties	**1,688,040**	2,055,783	1,921,719
Derivative financial instruments – liabilities	**4,266**	23,544	16,611
Total related party liabilities	**1,692,306**	2,079,327	1,938,330

16. 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 table below provides 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 **30.06.19 Unaudited**		
Dollars in Thousands	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
ASSETS				
Financial investments	**444,330**	**25,943**	**22**	**470,295**
Derivatives financial instruments	**-**	**27,443**	**-**	**27,443**
LIABILITIES				
Derivatives financial instruments	**-**	**29,345**	**-**	**29,345**

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

16. Fair value of financial instruments

Determination of fair value of financial instruments carried at fair value *(continued)*

		Banking Group 30.06.18 Unaudited		
Dollars in Thousands	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Financial investments	366,151	13,945	22	380,118
Derivatives financial instruments	-	53,203	-	53,203
LIABILITIES				
Derivatives financial instruments	-	53,917	-	53,917

		Banking Group 31.12.18 Audited		
Dollars in Thousands	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Financial investments	409,504	12,449	22	421,975
Derivatives financial instruments	-	49,986	-	49,986
LIABILITIES				
Derivatives financial instruments	-	51,135	-	51,135

There have been no transfers between levels 1 and 2 in the period to 30 June 2019 (June 2018: none; December 2018: none). Any transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

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.

Financial investments
For 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.

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

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

Deposits by banks, customer 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 market observable 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.

Fair value of financial instruments not carried at fair value

The following tables summarise the carrying values and fair values of financial assets and financial liabilities not measured at fair value in the Banking Group at the end of the current and comparative periods.

	Banking Group					
	Unaudited 30.06.19	**Unaudited 30.06.19**	Unaudited 30.06.18	Unaudited 30.06.18	Audited 31.12.18	Audited 31.12.18
Dollars in Thousands	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
ASSETS						
Advances to customers	**4,260,343**	**4,256,992**	4,257,557	4,253,751	4,124,212	4,123,652
LIABILITIES						
Customer deposits	**3,477,844**	**3,479,413**	3,058,429	3,059,582	3,058,901	3,060,202
Debt securities issued	**619,897**	**621,662**	589,733	590,010	689,748	702,452
Amounts due to related parties	**1,688,040**	**1,693,054**	2,055,783	2,058,640	1,921,719	1,923,502

Other financial instruments not carried at fair value are typically short-term in nature and reprice to the current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. This includes cash and demand balances with central banks, advances to banks, amounts due from related parties, deposits by banks, other assets and other liabilities.

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

17. Interest rate risk – repricing schedule

The table below analyses the Banking Group's financial assets and financial liabilities into relevant maturity groupings based on the earlier of residual contractual maturity or next interest repricing date.

	Banking Group							
Dollars in Millions	*Up to 3 months*	*Over 3 months and up to 6 months*	*Over 6 months and up to 1 year*	*Over 1 year and up to 2 years*	*Over 2 years*	*Total interest bearing*	*Non interest bearing*	*Total*
30 June 2019 (Unaudited)								
Financial Assets								
Cash and demand balances with central banks	**726**	**-**	**-**	**-**	**-**	**726**	**-**	**726**
Advances to banks	**30**	**-**	**-**	**-**	**-**	**30**	**-**	**30**
Financial investments	**123**	**30**	**83**	**123**	**111**	**470**	**-**	**470**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**27**	**27**
Advances to customers	**2,532**	**265**	**687**	**709**	**71**	**4,264**	**(4)**	**4,260**
Amounts due from related parties	**698**	**-**	**-**	**-**	**-**	**698**	**-**	**698**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**23**	**23**
Total financial assets	**4,109**	**295**	**770**	**832**	**182**	**6,188**	**46**	**6,234**
Financial Liabilities								
Deposits by banks	**350**	**-**	**-**	**-**	**-**	**350**	**-**	**350**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**29**	**29**
Customer deposits	**2,941**	**322**	**171**	**19**	**16**	**3,469**	**9**	**3,478**
Debt securities	**620**	**-**	**-**	**-**	**-**	**620**	**-**	**620**
Amounts due to related parties	**1,086**	**78**	**-**	**306**	**-**	**1,470**	**218**	**1,688**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**44**	**44**
Total financial liabilities	**4,997**	**400**	**171**	**325**	**16**	**5,909**	**301**	**6,209**
Off-balance sheet financial instruments								
Net notional interest rate contracts	**125**	**(25)**	**(25)**	**(75)**	**-**	**-**	**-**	**-**

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

Dollars in Thousands	***Banking Group*** **Unaudited 30.06.19**
Demand balances with the central bank	**726,428**
Financial investments	**470,273**
	1,196,701

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

18. Liquidity risk management *(continued)*

Maturity Analysis – undiscounted cashflows basis

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

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

	Banking Group							
Dollars in Millions	*On Demand*	*0-1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*No specific maturity*	*Total*
30 June 2019 *(Unaudited)*								
Financial Liabilities								
Deposits by banks	**350**	**-**	**-**	**-**	**-**	**-**	**-**	**350**
Customer deposits	**1,913**	**603**	**435**	**500**	**37**	**3**	**-**	**3,491**
Debt securities	**-**	**-**	**4**	**31**	**616**	**-**	**-**	**651**
Amounts due to related parties	**401**	**-**	**-**	**152**	**1,178**	**-**	**-**	**1,731**
Other liabilities	**11**	**12**	**7**	**11**	**2**	**-**	**1**	**44**
Total non-derivative financial liabilities	**2,675**	**615**	**446**	**694**	**1,833**	**3**	**1**	**6,267**
Derivative financial instruments – held for trading purposes	**28**	**-**	**-**	**-**	**-**	**-**	**-**	**28**
Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**2**
Total undiscounted financial liabilities	**28**	**-**	**-**	**-**	**2**	**-**	**-**	**30**
Undrawn loan commitments	**1,983**	**-**	**-**	**-**	**-**	**-**	**-**	**1,983**

19. 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 Schedule 9 to the Order.

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

	Banking Group	
Dollars in Millions	*Implied risk weighted exposure*	*Notional capital charge*
Exposure at 30 June 2019 (Unaudited)		
Interest rate risk	**90.75**	**7.26**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**
Peak exposure period 1 January 2019 to 30 June 2019 (Unaudited)		
Interest rate risk	**197.13**	**15.77**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**

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

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.06.19**	30.06.18	31.12.18

20. Contingent liabilities and other commitments

Contingent liabilities and commitments

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.

Direct credit substitutes	**184,005**	78,205	124,807
Transaction related contingent items	**351,389**	307,118	343,401
Trade related contingent items	**114,233**	146,335	174,210
Commitments, maturity one year or more	**1,432,008**	1,505,171	1,282,096
Commitments, maturity up to one year	**551,486**	598,000	622,738
	2,633,121	2,634,829	2,547,252
Capital commitments			
Contracted expenditure	**463**	635	1,040

21. Insurance and non-financial business

The Banking Group does not conduct any insurance business or non-financial activities in New Zealand. HBAP does not carry on any insurance business or non-financial activities in New Zealand that is outside its banking group.

The Banking Group does not market or distribute insurance products.

22. Capital adequacy ratios of HBAP Group

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 2019.

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/investor-relations/subsidiary-company-reporting.

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

	Unaudited 30.06.19	Unaudited 30.06.18	Unaudited 31.12.18
Basel III Capital Ratios			
Common Equity Tier 1 (CET1) capital	**16.6%**	15.4%	16.5%
Tier 1 capital	**18.2%**	16.7%	17.8%
Total capital	**20.3%**	19.0%	19.8%

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

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

23. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Unaudited 6 months ended 30.06.19**	Unaudited 6 months ended 30.06.18	Audited 12 months ended 31.12.18
Profitability			
Net profit after tax	**60,601**	58,518	112,116
Net profit after tax over the previous 12 month period as a percentage of average total assets	**1.4%**[1]	1.3%[1]	1.4%[1]
Size			
Total assets	**8,672,793**	8,238,867	8,263,454
Percentage increase in total assets over the previous 12 month period	**5.3%**	7.4%	4.0%
Asset quality			
HKFRS 9 Stage 3 and POCI gross carrying value[3]	**Not available**[4]	21,322	20,627
HKFRS 9 Stage 3 and POCI ECL[2]	**Not available**[4]	(9,419)	(10,050)
HKFRS 9 Stage 1 and 2 ECL[2]	**Not available**[4]	(6,934)	(7,355)
HKFRS 9 Stage 3 gross carrying value[3] / Total assets	**Not available**[4]	0.3%	0.2%
HKFRS 9 Stage 3 and POCI ECL[2] / Stage 3 and POCI gross carrying value[3]	**Not available**[4]	44.2%	48.7%

1 Average total assets for HBAP Group is not publicly available. This calculation uses a two-point average of total assets as at the end of the reported period and the comparative period ended 12 months earlier.
2 ECL on advances to banks and customers including loan commitments and financial guarantees
3 Gross carrying value of advances to banks and customers including nominal value of loan commitments and financial guarantees
4 At the date of signing this Disclosure Statement, the amount of HBAP Group expected credit loss split by stage, and gross carrying value of Stage 3 and POCI assets as at 30 June 2019 was not publicly available.

24. Subsequent events

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

Directors' and New Zealand Chief Executive Officer's Statements

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

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

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

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

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

over the six months ended 30 June 2019.

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, Christopher David Gosse Russell, and also in his capacity as Chief Executive Officer:

Christopher David Gosse Russell
Chief Executive Officer
New Zealand Branch

21 August 2019

It is confirmed that the said powers of attorney appointing Christopher David Gosse Russell are still in force and have not been revoked.

Independent auditor's review report

To the Directors of The Hongkong and Shanghai Banking Corporation Limited

Report on the Disclosure Statement

We have reviewed pages 11 to 33 of the Disclosure Statement for the six months ended 30 June 2019 (the "Disclosure Statement") of The Hongkong and Shanghai Banking Corporation Limited (the "Branch"), which includes the financial statements of The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group ("Banking Group") required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 9, 12 and 14 of the Order. The Banking Group comprises the New Zealand operations of The Hongkong and Shanghai Banking Corporation Limited.

The financial statements comprise the balance sheet as at 30 June 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information.

The supplementary information is included within the notes to the financial statements.

Directors' responsibility for the Disclosure Statement

The Directors of The Hongkong and Shanghai Banking Corporation Limited (the "Directors") are responsible, on behalf of The Hongkong and Shanghai Banking Corporation Limited, for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of The Hongkong and Shanghai Banking Corporation Limited, for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

Our responsibility

Our responsibility is to express the following conclusions on the financial statements and supplementary information presented by the Directors based on our review:

- the financial statements (excluding the supplementary information): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 12 and 14 of the Order; and
- the supplementary information relating to credit and market risk exposures and capital adequacy: whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on the financial statements and supplementary information.

We are independent of the Banking Group. Our firm carries out other services for the Banking Group in the areas of taxation compliance services. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group.

Conclusion

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that:

a) the financial statements (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34;

b) the supplementary information that is required to be disclosed under Schedules 5, 7, 12 and 14 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and

c) the supplementary information relating to credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 9 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Who we report to

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than The Hongkong and Shanghai Banking Corporation Limited and the Directors, as a body, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
21 August 2019

HSBC