The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 June 2018

HSBC

Disclosure Statement
For the six months ended 30 June 2018

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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 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/investor-relations.

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)*

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.

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.

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:

^* John Michael Flint (Chairman)
Bachelor of Arts (Hons) (Economics), Portsmouth Polytechnic, 1989
Executive Director and Group Chief Executive, HSBC Holdings plc

Peter Tung Shun Wong (Deputy Chairman and Chief Executive)
Bachelor of Arts, Indiana University, 1974; Master of Business Administration, Indiana University, 1976;
and Master of Science, Indiana University, 1979

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

Laura May Lung Cha, GBM (Deputy Chairman)
Bachelor of Arts, 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** (Deputy Chairman)
Bachelor of Arts (Law), Cambridge University, 1978; Master of Laws, Harvard University, 1979
Partner, AZB & Partners

* **Graham John Bradley**
Bachelor of Arts, LLB (Hons I), Sydney University, 1971
LLM, Harvard University, 1973
Company Director

Louisa Wai Wan Cheang
Bachelor of Social Sciences, The University of Hong Kong, 1985
Vice-Chairman and Chief Executive, Hang Seng Bank Limited

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

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

Yiu Kwan Choi
Higher Certificate in Accountancy, Hong Kong Polytechnic University, 1976
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, 1974; and Member of Honourable Society of Gray's Inn, UK, 1977
Barrister-at-Law in England and Wales, 1977
Chairman, Hysan Development Company Limited

* **Jennifer Xinzhe Li**
Bachelor of Arts, Tsinghua University, Beijing, China, 1990
Master of Business Administration, The University of British Columbia, Vancouver, Canada, 1994
Chief Executive Officer and Managing Partner, Changcheng Investment Partners

^ **Victor Tzar Kuoi Li**
B.Sc. and M.Sc., Stanford University, 1986
Chairman and Managing Director, the Chairman of the Executive Committee and Member of the Remuneration Committee of CK Asset Holdings Limited,
and Chairman and Group Co-Managing Director and Member of the Remuneration Committee of CK Hutchison Holdings Limited

* **Bin Hwee Quek (née Chua),** JP
Bachelor of Accountancy (Hons), The University of Singapore, 1979
Chartered Accountant, Institute of Singapore Chartered Accountants, 2013
Company Director

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

 # Kevin Anthony Westley, BBS
Bachelor of Arts (Hons), University of London (LSE), 1970; Chartered Accountant, Institute of Chartered Accountants in England and Wales, 1973
Company Director

 # Marjorie Mun Tak Yang, 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 Sock Ping Yeoh, CBE
Bachelor of Science (Hons.) in Civil Engineering, University of Kingston, UK, 1978;
and Honorary Doctorate of Engineering from University of Kingston, UK, 2004
Managing Director, 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. John Michael Flint resides in the United Kingdom, 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

John Michael Flint has been appointed as a non-executive Director and the Chairman of the Board with effect from 16 January 2018 and 21 February 2018 respectively.
Stuart Thompson Gulliver stepped down as a Director and Chairman of the Board on 20 February 2018.
John Robert Slosar stepped down as an independent non-executive director of the Board at the conclusion of the Board meeting on 24 July 2018.

There have been no other changes in the composition of the Board of Directors since 31 December 2017.

Directors' Policy on Conflicts of Interests

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."

Directors' Interests in Contracts

No transactions, arrangements or contracts that were significant in relation to HBAP's business and in which a Director or his or her connected entities had, directly or indirectly, a material interest were entered into by or subsisted with the HBAP's holding companies, its subsidiaries or any fellow subsidiaries during the first half of the year.

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- (stable outlook)	Not changed	-

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 2018.

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 65%, 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 15% 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 2018, 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 2018.

Changes to Conditions of Registration since the 31 December 2017 Disclosure Statement

The Conditions of Registration were amended on 1 January 2018 to adjust the LVR thresholds applicable in clauses 8 and 9.

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Banking Group Unaudited 6 months ended	
Dollars in Thousands	Note	**30.06.18**	30.06.17
Interest income		**94,342**	78,421
Interest expense		**(50,346)**	(35,862)
Net interest income		**43,996**	42,559
Net trading income	3	**5,562**	2,347
Other net operating income	4	**19,130**	18,133
Net operating income before credit impairment charges		**68,688**	63,039
Loan impairment (charges) / releases	9	**-**	435
Change in expected credit loss and other credit impairment charges	9	**3,844**	-
Net operating income		**72,532**	63,474
Operating expenses		**(33,172)**	(29,594)
Operating profit before tax		**39,360**	33,880
Income tax expense		**(11,040)**	(9,516)
Profit after tax		**28,320**	24,364
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 / (losses) other comprehensive income		**25**	-
Income taxes		**(6)**	-
Available-for-sale financial asset			
Fair value gains / (losses) on available-for-sale financial assets		**-**	709
Income taxes		**-**	(143)
Other comprehensive income / (expense) for the period		**19**	566
Total comprehensive income for the period		**28,339**	24,930

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 2018

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.18**	30.06.17
Head Office Account *		
At beginning of the period	**22,747**	22,811
Changes in initial application of NZ IFRS 9	**(4,486)**	-
Restated balance at beginning of the period	**18,261**	22,811
Repatriation to Head Office	**(18,261)**	(22,810)
Profit after tax	**28,320**	24,364
At end of the period	**28,320**	24,365
Available-for-Sale Reserve		
At beginning of the period	**1,050**	623
Changes in initial application of NZ IFRS 9	**(1,050)**	-
Restated balance at beginning of the period	**-**	623
Fair value changes taken to equity	**-**	986
Transferred to the income statement	**-**	(277)
Tax on movements and transfers	**-**	(143)
At end of the period	**-**	1,189
Financial assets at Fair Value through Other Comprehensive Income Reserve		
At beginning of the period	**-**	**-**
Changes in initial application of NZ IFRS 9	**1,055**	**-**
Restated balance at beginning of the period	**1,055**	**-**
Fair value changes taken to equity	**25**	**-**
Transferred to the income statement	**-**	**-**
Tax on movements and transfers	**(6)**	**-**
At end of the period	**1,074**	**-**
Share-based Payment Reserve		
At beginning of the period	**1,559**	1,639
Transferred to the income statement	**-**	69
Movement in share-based payment arrangements	**114**	(75)
At end of the period	**1,673**	1,633
Equity at end of the period	**31,067**	27,187

* 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.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

			Banking Group	
		Unaudited	Unaudited	Audited
Dollars in Thousands	Note	**30.06.18**	30.06.17	31.12.17
ASSETS				
Cash and demand balances with central bank		**658,488**	509,313	749,892
Advances to banks		**9,873**	10,087	27,478
Financial investments		**380,118**	345,711	243,560
Derivative financial instruments		**53,203**	99,765	33,883
Advances to customers	5	**4,257,557**	3,952,305	4,444,132
Amounts due from related parties	15	**751,622**	275,296	867,052
Other assets		**22,090**	20,909	22,945
Property, plant and equipment		**1,219**	1,494	1,399
Deferred tax asset		**1,054**	-	180
Goodwill and intangible assets		**13,888**	14,598	14,244
Total Assets		**6,149,112**	5,229,478	6,404,765
LIABILITIES				
Deposits by banks		**315,983**	243,284	274,982
Derivative financial instruments		**53,917**	101,127	32,798
Customer deposits	12	**3,058,429**	2,845,283	3,154,319
Debt securities		**589,733**	209,915	388,962
Amounts due to related parties	15	**2,055,783**	1,767,124	2,482,254
Other liabilities		**41,533**	33,788	41,820
Current tax liabilities		**2,667**	436	4,274
Deferred tax liability		**-**	1,334	-
Total Liabilities		**6,118,045**	5,202,291	6,379,409
Net Assets		**31,067**	27,187	25,356
EQUITY				
Head Office Account		**28,320**	24,365	22,747
Other Reserves		**1,074**	1,189	1,050
Share-based Payment Reserve		**1,673**	1,633	1,559
Total Equity		**31,067**	27,187	25,356

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 2018

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.18**	30.06.17
Cash flows from / (to) operating activities		
Interest received	**97,312**	80,313
Fees and commissions	**17,218**	18,208
Realised trading gain	**8,354**	1,034
Interest paid	**(44,484)**	(37,388)
Operating expenses	**(38,979)**	(39,116)
Taxation paid	**(11,776)**	(10,711)
Net cash flows from operating activities before changes in operating assets and liabilities	**27,644**	12,340
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	**186,569**	(505,334)
Amounts due from related parties	**113,299**	70,638
Other assets	**2,527**	1,870
Other liabilities	**(2,554)**	(605)
Debt securities issued / (repaid)	**199,196**	(121,649)
Deposits by banks	**39,947**	6,730
Customer deposits	**(95,890)**	(272,919)
Amounts due to related parties	**(423,327)**	600,892
Net change in operating assets and liabilities	**19,767**	(220,377)
Net cash flows from / (to) operating activities	**47,412**	(208,037)
Cash flows from / (to) investing activities		
Financial investments purchased	**(148,402)**	-
Financial investments sold	**-**	25,001
Financial investments matured	**9,500**	114,721
Acquisition of property, plant and equipment	**(78)**	(85)
Net cash flows to investing activities	**(138,980)**	139,637
Cash flows to financing activities		
Repatriation to head office	**(18,261)**	(22,810)
Net cash flows to financing activities	**(18,261)**	(22,810)
Net increase / (decrease) in cash and cash equivalents	**(109,829)**	(91,210)
Effect of exchange rate fluctuations on cash held	**167**	(38)
Cash and cash equivalents at beginning of year	**776,974**	605,403
Cash and cash equivalents at end of year	**667,312**	514,155

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 2018

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.18**	30.06.17
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**658,488**	509,313
Items in the course of collection from other banks[1]	**1**	5
Gross advances to banks – demand	**9,877**	10,082
Less: items in the course of transmission to other banks[1]	**(1,054)**	(5,245)
	667,312	514,155

[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.

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

GENERAL 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 years 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 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") and the Reserve Bank of New Zealand Act 1989. These interim financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and are presented in accordance with NZ IAS 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 hold to collect and sell financial assets, 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 Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended).

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 Disclosure Statement 31 December 2017, as are the methods of computation.

Authorisation of financial statements

These financial statements were authorised for issue by the directors of The Hongkong and Shanghai Banking Corporation Limited on 27 August 2018.

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

1. Statement of Accounting Policies *(continued)*

Changes in Accounting Policies

The Banking Group has adopted the requirements of New Zealand equivalents to International Financial Reporting Standard 9 ('NZ IFRS 9') from 1 January 2018, including the adoption of 'Prepayment Features with Negative Compensation (Amendments to NZ IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. NZ IFRS 9 includes an accounting policy choice to continue to apply hedge accounting under NZ IAS 39 hedge accounting, which the Banking Group has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by NZ IFRS 9, the Banking Group has not restated comparatives and accordingly comparative information may not be directly comparable. Adoption of NZ IFRS 9 reduced net assets at 1 January 2018 by $4.5 million as set out on page 24.

In addition, the Banking Group has adopted the requirements of NZ IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the aggregated financial statements of the Banking Group.

Accounting policy changes from implementing NZ IFRS 9

Set out below are the new or substantially revised accounting policies implementing NZ IFRS 9 which replace the existing NZ IAS 39 policies noted in the 31 December 2017 financial statements with respect to classification and measurement and impairment. The accounting policies on hedge accounting are unchanged and are not repeated.

(a) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan becomes impaired.

The Banking Group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the Banking Group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

(b) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise the Banking Groups' debt securities held for liquidity management purposes. They are recognised on the trade date when the Banking Group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

1. Statement of Accounting Policies *(continued)*

(c) Equity securities measured at fair value with fair value movements presented in OCI

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the Banking Group holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(d) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- where the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Banking Group enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Banking Group enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments designated at fair value'.

Under the above criterion, there are no such financial instruments designated at fair value by the Banking Group at 30 June 2018.

(e) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or foreign exchange rates. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

(f) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to banks and customers, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets (POCI) are treated differently as set out below.

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

1. Statement of Accounting Policies *(continued)*

Credit-impaired (stage 3)

The Banking Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

·contractual payments of either principal or interest are past due for more than 90 days;

·there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and

·the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit-impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Banking Group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

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

1. Statement of Accounting Policies *(continued)*

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average probability of default ('PD') for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination credit risk rating ("CRR") is less than 'satisfactory'). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of NZ IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by product. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk - (stage 1)
ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

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

1. Statement of Accounting Policies *(continued)*

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition. The Banking Group does not have any POCI financial assets.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Banking Group calculates ECL using three main components, a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The Banking Group leverages the Basel II IRB framework issued by the Basel Committee on Banking Supervision where possible, with recalibration to meet the differing NZ IFRS 9 requirements as follows:

Model	Basel II IRB framework	NZ IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

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

1. Statement of Accounting Policies *(continued)*

Measurement of ECL *(continued)*

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Banking Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Banking Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The Banking Group will in general apply three forward-looking global economic scenarios determined by Group with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'Outer' scenarios on either side of the Central, referred to as an Upside and a Downside scenario respectively. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Group's current top and emerging risks. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80% and the Upside and Downside scenarios 10% each, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The central forecast and spread between the Central and Outer scenarios is grounded on expected gross domestic product. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property.

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

1. Statement of Accounting Policies *(continued)*

Forward-looking economic inputs *(continued)*

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly. The Group recognises that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL estimates.

Use of estimates and judgements

Management believes that the Banking Group's critical accounting estimates and judgements are those which relate to impairment of financial assets, goodwill impairment, the valuation of financial instruments, deferred tax assets, and provisions for liabilities.

The implementation of NZ IFRS 9 resulted in a change to the assessment of the critical accounting estimates and judgements related to impairment of financial assets. In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities. The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that NZ IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement.

There were no other changes in the current period to the critical accounting estimates and judgements applied in 2018, which are stated in note 1 of the financial statements for the year ended 31 December 2017.

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

1. Statement of Accounting Policies *(continued)*

Reconciliation of balance sheet as at 31 December 2017 and 1 January 2018

Unaudited *Dollars in Thousands*	Measurement category NZ IAS 39	 NZ IFRS 9	NZ IAS 39 31.12.17	NZ IFRS 9 changes to classification and measurement	NZ IFRS 9 Remeasurement due to ECL	**NZ IFRS 9** **01.01.18**
ASSETS						
Cash and demand balances with central bank	AC	AC	749,892	-	-	**749,892**
Advances to banks	AC	AC	27,478	-	(2)	**27,476**
Financial Investments	AFS	FVOCI	243,560	-	-	**243,560**
Derivative financial instruments	FVPL	FVPL	33,883	-	-	**33,883**
Advances to customers	AC	AC	4,444,132	-	(4,439)	**4,439,693**
Amounts due from related parties	AC	AC	867,052	-	-	**867,052**
Other assets	AC	AC	22,945	-	(8)	**22,937**
Property, plant and equipment	N/A	N/A	1,399	-	-	**1,399**
Deferred tax asset	N/A	N/A	180	-	1,745	**1,925**
Goodwill and intangible assets	N/A	N/A	14,244	-	-	**14,244**
Total Assets			6,404,765	-	(2,704)	**6,402,061**
LIABILITIES						
Deposits by banks	AC	AC	274,982	-	-	**274,982**
Derivative financial instruments	FVPL	FVPL	32,798	-	-	**32,798**
Customer deposits	AC	AC	3,154,319	-	-	**3,154,319**
Debt securities	AC	AC	388,962	-	-	**388,962**
Amounts due to related parties	AC	AC	2,482,254	-	-	**2,482,254**
Other liabilities	AC	AC	41,820	-	1,777	**43,597**
Current tax liabilities	N/A	N/A	4,274	-	-	**4,274**
Total Liabilities			6,379,409	-	1,777	**6,381,186**
Net Assets			25,356	-	(4,481)	**20,875**
EQUITY						
Head Office Account	N/A	N/A	22,747	-	(4,486)	**18,261**
Other Reserves[1]	N/A	N/A	1,050	-	5	**1,055**
Share-based Payment Reserve	N/A	N/A	1,559	-	-	**1,559**
Total Equity			25,356	-	(4,481)	**20,875**

AC - Amortised Cost; FVPL - Fair value through profit and loss; FVOCI – Fair value through other comprehensive income
AFS – Available for sale; N/A – Not applicale

[1] While NZ IFRS 9 ECL has no effect on the carrying value of FVOCI financial assets, which remain measured at fair value, the adoption of NZ IFRS 9 results in a transfer from the FVOCI reserve (formerly AFS reserve) to retained earnings to reflect the cumulative impairment recognised in profit or loss in accordance with NZ IFRS 9 (net of impairment losses previously recognised in profit or loss under NZ IAS 39). The resulting cumulative expected credit losses recognised in 'Retained earnings' on financial assets measured at FVOCI on adoption of NZ IFRS 9 is $5 thousand.

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

1. Statement of Accounting Policies *(continued)*

Reconciliation of impairment allowances

The following table is a comparison of impairment allowances determined in accordance with NZ IAS 39 and NZ IAS 37 to the corresponding impairment allowance determined in accordance with NZ IFRS 9 as at 1 January 2018.

	Audited NZ IAS 39 / NZ IAS 37 as at 31 December 2017				**Unaudited NZ IFRS 9 at 1 January 2018**			
Dollars in Thousands	Collective	Individual	Total	Transition	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Advances to customers	1,279	4,510	5,789	4,439	**2,778**	**3,741**	**3,709**	**10,228**
Advances to banks	-	-	-	2	**2**	**-**	**-**	**2**
Other assets	-	-	-	8	**4**	**4**	**-**	**8**
Off balance sheet loan commitments and financial guarantees	-	-	-	1,777	**455**	**1,322**	**-**	**1,777**
Total allowance for Credit losses	1,279	4,510	5,789	6,226	**3,239**	**5,067**	**3,709**	**12,015**

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 2018.

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

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.18**	30.06.17
3. Net trading income		
Foreign exchange gains / (losses)	**5,166**	(338)
Gains / (losses) on revaluation of derivatives	**418**	2,190
Credit valuation adjustments on derivatives	**(7)**	4,498
Debit valuation adjustments on derivatives	**8**	(3,866)
Gain/ (loss) on hedging instrument in fair value hedge	**(17)**	(599)
Gain/ (loss) on hedged item in fair value hedge	**(6)**	462
	5,562	2,347

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.18**	30.06.17
4. Other net operating income		
Fee and commission income	**20,402**	19,470
Fee and commission expense	**(1,606)**	(1,337)
Other	**334**	-
	19,130	18,133

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.06.18**	30.06.17	31.12.17
5. Advances to customers			
Overdrafts	**125,416**	114,899	136,959
Mortgages	**1,738,591**	1,490,835	1,656,668
Term lending	**2,259,599**	2,179,159	2,510,062
Non-eligible bills	**121,961**	154,695	146,232
Money market loans	**17,600**	14,700	-
Total gross advances to customers	**4,263,167**	3,954,288	4,449,921
Expected credit loss allowance	**(5,610)**	-	-
Provisions for loan impairment	**-**	(1,983)	(5,789)
Total net advances to customers	**4,257,557**	3,952,305	4,444,132

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 2018 (Unaudited)				
Value of exposures on balance sheet	**1,721,692**	**14,877**	**2,022**	**1,738,591**
Value of exposures off balance sheet	**179,714**	**77**	**200**	**179,991**
Total value of exposures	**1,901,406**	**14,954**	**2,222**	**1,918,582**

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

	Banking Group Unaudited	
Dollars in Thousands	**30.06.18**	30.06.17
7. Asset quality – Gross exposure		
Gross exposure of past due but not individually impaired loans and advances to customers		
Less than 30 days	**76,665**	32,911
At least 30 days but less than 60 days	**535**	802
At least 60 days but less than 90 days	**314**	245
At least 90 days	**-**	-
Total past due but not individually impaired	**77,514**	33,958

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 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Total exposures				
As at 1 January 2018	**5,779,831**	**952,759**	**9,384**	**6,741,974**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**(226,440)**	**226,440**	**-**	**-**
Transfer from Stage 2 to 1	**264,964**	**(264,964)**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**2,713**	**-**	**(2,713)**	**-**
Net further lending/repayment	**280,128**	**(33,647)**	**(1,648)**	**244,833**
Asset derecognised (including final repayments)	**(1,488,932)**	**(473,716)**	**(1,184)**	**(1,963,832)**
New financial assets originated or purchased	**1,649,404**	**-**	**-**	**1,649,404**
Others	**(174,867)**	**(99,065)**	**-**	**(273,932)**
As at 30 June 2018 – total credit exposure	**6,086,801**	**307,807**	**3,839**	**6,398,447**

There are no assets under administration as at 30 June 2018 (30 June 2017: nil). The aggregate amount as at 30 June 2018 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 $119 thousand (30 June 2017: $10 thousand).

8. Asset quality – Expected Credit Loss

Total Expected Credit Loss Allowance

	NZ IFRS 9 assessment at 30 June 2018 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Advances to customers	**2,312**	**957**	**2,341**	**5,610**
Advances to banks	**5**	**-**	**-**	**5**
Other assets	**8**	**3**	**-**	**11**
Off balance sheet loan commitments and financial guarantees	**436**	**2,499**	**66**	**3,001**
Total allowance for Credit losses	**2,761**	**3,459**	**2,407**	**8,627**

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

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

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

	6 months ended 30 June Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit loss allowance				
As at 1 January 2018	**(3,235)**	**(5,063)**	**(3,709)**	**(12,007)**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**98**	**(98)**	**-**	**-**
Transfer from Stage 2 to 1	**(1,285)**	**1,285**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**(3)**	**-**	**3**	**-**
Net further lending/repayment	**74**	**(600)**	**1,986**	**1,460**
Changes in model inputs	**1,126**	**(2,163)**	**(630)**	**(1,667)**
Asset derecognised (including final repayments)	**653**	**3,342**	**14**	**4,009**
New financial assets originated or purchased	**(770)**	**-**	**-**	**(770)**
Others	**589**	**(159)**	**(71)**	**359**
As at 30 June 2018 – total expected credit loss	**(2,753)**	**(3,456)**	**(2,407)**	**(8,616)**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - income statement charge/(release) for the period	**(482)**	**(1,606)**	**(1,303)**	**(3,391)**
Recoveries	**-**	**-**	**(438)**	**(438)**
ECL on other financial assets income statement charge / (release)	**4**	**(1)**	**-**	**3**
Other movements	**(18)**	**-**	**-**	**(18)**
Total ECL income statement charge / (release) for period	**(496)**	**(1,607)**	**(1,741)**	**(3,844)**

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

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.18**	30.06.17
9. Change in expected credit loss and loan impairment charges		
Change in expected credit losses assessed under NZ IFRS 9		
Loans and advances to customers		
- New allowances net of allowance releases	**4,614**	-
- Recoveries of amounts previously written off	**438**	-
	5,052	-
Loan commitments and guarantees	**(1,205)**	-
Other financial assets	**(3)**	-
Loan impairment charges assessed under NZ IAS 39		
Individually assessed impairment (charges) / releases		
- New charges	**-**	-
- Releases	**-**	275
- Recoveries	**-**	1
		276
Collectively assessed impairment (charge) / release	**-**	159
Change in expected credit loss and loan impairment charges	**3,844**	435

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 30.06.18**
On-balance sheet credit exposures	
Cash and demand balances with central banks	**658,488**
Advances to banks	**9,873**
Financial investments	**380,118**
Derivative financial instruments	**53,203**
Advances to customers	**4,257,557**
Amounts due from related parties	**751,622**
Other assets	**21,830**
	6,132,691
Off-balance sheet credit exposures	**2,634,829**
Total credit exposures	**8,767,520**

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

Concentrations of credit risk by industry

Individual	**1,987,227**
Commercial and industrial	**1,921,680**
Commercial real estate and construction	**934,898**
Banks and financial institutions	**2,121,275**
Agriculture, forestry and mining	**120,414**
Transport	**182,426**
Energy	**543,733**
Government	**283,837**
Other	**672,030**
	8,767,520

Concentrations of credit risk by geographical area

New Zealand	**7,247,021**
Hong Kong	**786,186**
Australia	**203,813**
China	**128,732**
Great Britain	**72,382**
United States	**157,677**
Other Overseas	**171,709**
	8,767,520

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

Dollars in Thousands	**Banking Group Unaudited 30.06.18**
11. Concentrations of funding risk	
Concentrations of funding by product	
Deposits by banks	**315,983**
Customer deposits	**3,058,429**
Debt securities	**589,733**
Amounts due to related parties	**2,055,783**
	6,019,928

On 29 March 2018 the Banking Group issued $300 million of new debt securities. These securities mature in 2021 and pay a floating rate of interest.

Concentrations of funding by industry	
Agriculture, forestry and mining	**112,279**
Manufacturing	**372,253**
Wholesale and retail trade	**123,894**
Accommodation and restaurants	**11,450**
Banking and finance	**3,185,171**
Property and business services	**228,959**
Local authorities	**3,256**
Individual	**1,756,167**
Other	**226,499**
	6,019,928
Concentrations of funding by geographical area	
New Zealand	**2,538,319**
China	**212,985**
Great Britain	**251,594**
Hong Kong	**2,133,662**
United States	**261,669**
Other Overseas	**621,699**
	6,019,928

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.18**	Unaudited 30.06.17	Audited 31.12.17
12. Customer deposits			
Current accounts	**2,012,052**	1,785,295	2,078,063
Savings and deposit accounts	**1,041,660**	1,052,492	1,070,112
Other deposit accounts	**4,717**	7,496	6,144
Total customer deposits at amortised cost	**3,058,429**	2,845,283	3,154,319

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.18**	Unaudited 30.06.17	Audited 31.12.17
13. Additional financial disclosures on the statement of financial position			
Total interest earning and discount bearing assets	**6,063,007**	5,092,122	6,331,941
Total interest and discount bearing liabilities	**5,797,182**	4,843,870	6,073,643
Total liabilities net of amounts due to related parties	**4,038,718**	3,372,517	3,884,046
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligation to derivative counterparties	**-**	-	-

Notes to and forming part of the 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 30.06.18**				
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**
Other net operating income	**111**	**14,819**	**3,521**	**679**	**19,130**
Operating income	**19,999**	**34,886**	**8,965**	**4,838**	**68,688**
Expected credit loss allowance	**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**

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

14. Segment reporting *(continued)*

	Banking Group Unaudited 6 months ended 30.06.17				
Dollars in Thousands	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	16,658	17,121	3,379	5,401	42,559
Net trading income	777	1,393	207	(30)	2,347
Other net operating income	439	12,281	4,701	712	18,133
Operating income	17,874	30,795	8,287	6,083	63,039
Loan impairment (charges) / release	276	159	-	-	435
Operating expense	(11,313)	(13,695)	(4,188)	(398)	(29,594)
Operating profit before tax	6,837	17,259	4,099	5,685	33,880
Advances to customers	1,519,786	2,432,519	-	-	3,952,305
Customer deposits	1,839,357	807,348	198,578	-	2,845,283

	Banking Group Audited 12 months ended 31.12.17				
Dollars in Thousands	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	35,844	35,549	4,616	11,793	87,802
Net trading income	1,413	3,343	3,544	(1,432)	6,868
Other net operating income	718	23,896	9,105	1,734	35,453
Operating income	37,975	62,788	17,265	12,095	130,123
Loan impairment (charges) / release	329	(3,617)	-	-	(3,288)
Operating expense	(23,197)	(28,205)	(8,926)	(1,003)	(61,331)
Operating profit before tax	15,107	30,966	8,339	11,092	65,504
Advances to customers	1,690,823	2,753,309	-	-	4,444,132
Customer deposits	1,861,490	1,101,031	191,798	-	3,154,319

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

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.06.18**	30.06.17	31.12.17

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 Branch, HBAP and its subsidiaries and associated companies and other members of the ultimate holding company. Dealings include activities such as funding, accepting deposits, derivative transactions together with management and technical fees.

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

Assets			
Amounts due from related parties	**751,622**	275,296	867,052
Derivative financial instruments – assets	**29,601**	56,425	21,523
Total related party assets	**781,223**	331,721	888,575
Liabilities			
Amounts due to related parties	**2,055,783**	1,767,124	2,482,254
Derivative financial instruments – liabilities	**23,544**	62,650	13,109
Total related party liabilities	**2,079,327**	1,829,774	2,495,363

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 30.06.18 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**

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 30.06.17 Unaudited		
Dollars in Thousands	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Financial investment	345,689	-	22	345,711
Derivatives financial instruments	-	99,765	-	99,765
LIABILITIES				
Derivatives financial instruments	-	101,127	-	101,127

		Banking Group 31.12.17 Audited		
Dollars in Thousands	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Financial investments	243,041	497	22	243,560
Derivatives financial instruments	-	33,883	-	33,883
LIABILITIES				
Derivatives financial instruments	-	32,798	-	32,798

There have been no transfers between levels 1 and 2 in the period to 30 June 2018 (June 2017: none; December 2017: 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 hold to collect and sell 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 30.06.18	**Unaudited 30.06.18**	Unaudited 30.06.17	Unaudited 30.06.17	Audited 31.12.17	Audited 31.12.17
Dollars in Thousands	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
ASSETS						
Advances to customers	**4,257,557**	**4,253,751**	3,952,305	3,947,924	4,444,132	4,438,924
LIABILITIES						
Customer deposits	**3,058,429**	**3,059,582**	2,845,283	2,846,377	3,154,319	3,155,238
Debt securities issued	**589,733**	**590,010**	209,915	210,481	388,962	389,354
Amounts due to related parties	**2,055,783**	**2,058,640**	1,767,124	1,770,608	2,482,254	2,485,059

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 2018 (Unaudited)								
Financial Assets								
Cash and demand balances with central banks	**658**	**-**	**-**	**-**	**-**	**658**	**-**	**658**
Advances to banks	**10**	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Financial investments	**9**	**5**	**149**	**109**	**108**	**380**	**-**	**380**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**53**	**53**
Advances to customers	**2,777**	**390**	**443**	**580**	**74**	**4,264**	**(6)**	**4,258**
Amounts due from related parties	**751**	**-**	**-**	**-**	**-**	**751**	**-**	**751**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**22**	**22**
Total financial assets	**4,205**	**395**	**592**	**689**	**182**	**6,063**	**69**	**6,132**
Financial Liabilities								
Deposits by banks	**316**	**-**	**-**	**-**	**-**	**316**	**-**	**316**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**54**	**54**
Customer deposits	**2,511**	**351**	**148**	**14**	**21**	**3,045**	**13**	**3,058**
Debt securities	**590**	**-**	**-**	**-**	**-**	**590**	**-**	**590**
Amounts due to related parties	**1,847**	**-**	**-**	**-**	**-**	**1,847**	**209**	**2,056**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**42**	**42**
Total financial liabilities	**5,264**	**351**	**151**	**14**	**21**	**5,798**	**318**	**6,116**
Off-balance sheet financial instruments								
Net notional interest rate contracts	**126**	**25**	**(26)**	**(50)**	**(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 30.06.18**
Demand balances with the central bank	**658,488**
Financial investments	**380,096**
	1,038,584

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 2018 ***(Unaudited)***								
Financial Liabilities								
Deposits by banks	**316**	**-**	**-**	**-**	**-**	**-**	**-**	**316**
Customer deposits	**2,022**	**188**	**314**	**501**	**47**	**2**	**-**	**3,074**
Debt securities	**-**	**20**	**70**	**203**	**322**	**-**	**-**	**615**
Amounts due to related parties	**338**	**20**	**6**	**100**	**1,649**	**-**	**-**	**2,113**
Other liabilities	**3**	**10**	**23**	**3**	**3**	**-**	**-**	**42**
Total non-derivative financial liabilities	**2,679**	**238**	**413**	**807**	**2,021**	**2**	**-**	**6,160**
Derivative financial instruments – held for trading purposes	**49**	**-**	**-**	**1**	**2**	**-**	**-**	**52**
Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow	**-**	**-**	**-**	**1**	**1**	**-**	**-**	**2**
Total undiscounted financial liabilities	**49**	**-**	**-**	**2**	**3**	**-**	**-**	**54**
Undrawn loan commitments	**707**	**-**	**1,543**	**-**	**-**	**-**	**-**	**2,250**

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 2018 (Unaudited)		
Interest rate risk	**199.13**	**15.93**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**
Peak exposure period 1 January 2018 to 30 June 2018 (Unaudited)		
Interest rate risk	**230.88**	**18.47**
Foreign currency risk	**0.38**	**0.03**
Equity risk	**-**	**-**

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

	Banking Group		
	Unaudited	**Unaudited**	**Audited**
Dollars in Thousands	**30.06.18**	30.06.17	31.12.17

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.

	30.06.18	30.06.17	31.12.17
Direct credit substitutes	**78,205**	136,976	72,114
Transaction related contingent items	**307,118**	305,814	301,244
Trade related contingent items	**146,335**	96,591	158,825
Commitments, maturity one year or more	**1,505,171**	1,435,379	1,523,560
Commitments, maturity up to one year	**598,000**	642,623	638,142
	2,634,829	2,617,383	2,693,885

Capital commitments

	30.06.18	30.06.17	31.12.17
Contracted expenditure	**635**	-	210

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 2018.

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	Unaudited	Unaudited
	30.06.18	30.06.17	31.12.17
Basel III Capital Ratios			
Common Equity Tier 1 (CET1) capital	**15.4%**	15.2%	15.9%
Tier 1 capital	**16.7%**	16.3%	17.0%
Total capital	**19.0%**	18.4%	18.9%

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 30.06.18**	Unaudited 6 months ended 30.06.17	Audited 12 months ended 31.12.17
Profitability			
Net profit after tax	**58,518**	47,175	96,018
Net profit after tax over the previous 12 month period as a percentage of average total assets	**1.3%[1]**	1.2%[1]	1.2%[1]
Size			
Total assets	**8,238,867**	7,674,515	7,943,346
Percentage increase in total assets over the previous 12 month period	**7.4%**	3.7%	5.2%
Asset quality			
Individually impaired assets	**-**	18,411	15,543
HKFRS 9 Stage 3 and POCI gross carrying value[3]	**21,322**	-	-
HKAS 39 Individual impairment provision against advances to customers	**-**	(9,397)	(8,229)
HKAS 39 Collective impairment provision against advances to customers	**-**	(5,162)	(4,816)
HKFRS 9 Stage 3 and POCI ECL[2]	**(9,419)**	-	-
HKFRS 9 Stage 1 and 2 ECL[2]	**(6,934)**	-	-
HKAS 39 Individually impaired assets / Total assets	**-**	0.2%	0.2%
HKAS39 Individual impairment provision / individually impaired assets	**-**	51.0%	52.9%
HKFRS 9 Stage 3 gross carrying value[3] / Total assets	**0.3%**	-	-
HKFRS 9 Stage 3 and POCI ECL[2] / Stage 3 and POCI gross carrying value[3]	**44.2%**	-	-

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

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 2018.

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

27 August 2018

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 financial statements and supplementary information

We have reviewed pages 11 to 39 of the Disclosure Statement for the six months ended 30 June 2018 (the "Disclosure Statement") of The Hongkong and Shanghai Banking Corporation Limited (the "Branch"), which includes the financial statements 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 financial statements comprise the statement of financial position as at 30 June 2018, 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 for the Banking Group. The Banking Group comprises the New Zealand operations of The Hongkong and Shanghai Banking Corporation Limited.

Directors' responsibility

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 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 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:

- in relation to 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);
- in relation to 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
- in relation to 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.

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, employee immigration and custody assurance 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 on pages 11 to 39 (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
27 August 2018

HSBC