The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 June 2016

Disclosure Statement
For the Six Months Ended 30 June 2016

Contents	Page

General Disclosures	2
Conditions of Registration	6
Interim Financial Statements	10
Notes to and forming part of the Interim Financial Statements	15
Directors' and New Zealand Chief Executive Officer’s Statements	33
Independent Auditor’s Review Report	34

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 subsidiary and associated companies.

Ultimate Holding Company

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

Access to Parental Disclosures

The most recent publicly available financial statements of HBAP Group and HSBC Holdings plc (“Group”) can be found at HSBC Holdings plc’s website, www.hsbc.com/investor-relations/financial-and-regulatory-reports.

Ranking of Local Creditors in a Winding-up

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

Guarantee Arrangements

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

Government Guarantee

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

General Disclosures *(continued)*

Other Material Matters

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

Pending Proceedings and Arbitration

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

Auditor

New Zealand Banking Group
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).

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:

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

Peter Wong Tung Shun (Deputy Chairman and Chief Executive)
Bachelor of Arts, Indiana University, 1974; Master of Business Administration, Indiana University, 1976
Master of Science, Indiana University, 1978

[#] **Laura Cha May Lung**, GBS (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

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

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

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

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

Dr Raymond Ch'ien Kuo Fung, 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

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

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

^ **Victor Li Tzar Kuoi**
B.Sc, and M.Sc., Stanford University, 1986
Managing Director and Deputy Chairman of Cheung Kong Property Holdings Limited, and
Group Co-Managing Director and Deputy Chairman of CK Hutchison Holdings Limited

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

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

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

* **Tan Sri Dr Francis Yeoh Sock Ping**, CBE
Bachelor of Science (Hons.) in Civil Engineering, University of Kingston, UK, 1978; Honorary Doctorate of Engineering from University of Kingston, 2004
Managing Director, YTL Corporation Berhad

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

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

independent non-executive Director
^ non-executive Director

Country of Residence
With the exception of those denoted with an *, all directors reside in Hong Kong. Zia Mody resides in India, Graham John Bradley resides in Australia, Tan Sri Dr Francis Yeoh Sock Ping resides in Malaysia and Xinzhe Li Jennifer resides in China.

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

Peter James Holland Riley retired as an independent non-executive Director of HBAP on 18 April 2016.

There have been no other changes in the composition of the Board of Directors since 31 December 2015.

Credit Rating

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

	Current Rating	Previous Rating (if changed in the previous two years)	Date of Change
Moody’s Investor Service Inc.	Aa2 (stable outlook)	Not changed	-
Standard & Poor’s Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (stable outlook)	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 November 2015.

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 APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of APIL 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 ANPIL with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of ANPIL arising in the loan-to-valuation measurement period..

10. 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-Auckland 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-Auckland loans arising in the loan to valuation measurement period.

11. 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 11,—

> "ANPIL", "APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of […]" 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 November 2015, 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 April 2016.

Changes to Conditions of Registration since the 31 December 2015 Disclosure Statement

There has been no change to the Conditions of Registration.

Contents

Page

Statement of Comprehensive Income....10
Statement of Changes in Equity....11
Statement of Financial Position....12
Statement of Cash Flows....13
1. Statement of Accounting Policies....15
2. Net trading income....17
3. Other net operating income....17
4. Loan impairment charges....17
5. Related party balances....17
6. Advances to customers....18
7. Additional mortgage information....18
8. Customer deposits....18
9. Additional financial disclosures on the statement of financial position....18
10. Segment reporting....19
11. Asset quality....21
12. Fair value of financial instruments....22
13. Concentrations of credit and funding risk....25
14. Interest rate risk – repricing schedule....27
15. Liquidity risk management....27
16. Market risk exposures....30
17. Contingent liabilities and other commitments....30
18. Insurance and non-financial activities....30
19. Subsequent events....30
20. Profitability, size and asset quality of HBAP Group....31
21. Capital adequacy ratios of HBAP Group....32
Directors' and New Zealand Chief Executive Officer's Statements....33

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Banking Group	
		Unaudited 6 months ended	
Dollars in Thousands	Note	**30.06.16**	30.06.15
Interest income		**91,774**	116,623
Interest expense		**(50,996)**	(70,541)
Net interest income		**40,778**	46,082
Net trading income	2	**6,168**	8,301
Other net operating income	3	**16,774**	15,783
Net operating income before loan impairment charges		**63,720**	70,166
Loan impairment (charges) / releases	4	**1,339**	5,810
Net operating income		**65,059**	75,976
Operating expenses		**(32,396)**	(33,085)
Operating profit before tax		**32,663**	42,891
Income tax expense		**(9,166)**	(12,045)
Profit after tax		**23,497**	30,846
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Gains / (losses) on cashflow hedges		**(1,864)**	(3,022)
Income taxes on cashflow hedges		**522**	846
Gains / (losses) on available-for-sale financial assets		**701**	434
Income taxes on available-for-sale financial assets		**(196)**	(121)
Other comprehensive income / (expense) for the period		**(837)**	(1,863)
Total comprehensive income for the period		**22,660**	28,983

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

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Banking Group	
	Unaudited	
	6 months ended	
Dollars in Thousands	**30.06.16**	30.06.15
Head Office Account *		
At beginning of period	**53,793**	41,739
Repatriation to Head Office	**(53,792)**	(41,739)
Profit after tax	**23,497**	30,846
At end of period	**23,498**	30,846
Cashflow Hedging Reserve		
At beginning of period	**(1,595)**	103
Fair value changes taken to equity	**(3,012)**	(2,870)
Transferred to the income statement	**1,148**	(152)
Tax on movements and transfers	**522**	846
At end of period	**(2,937)**	(2,073)
Available-for-Sale Reserve		
At beginning of period	**521**	485
Fair value changes taken to equity	**2,750**	4,100
Transferred to the income statement	**(2,049)**	(3,666)
Tax on movements and transfers	**(196)**	(121)
At end of period	**1,026**	798
Share-based Payment Reserve		
At beginning of period	**1,636**	1,622
Transferred to the income statement	**84**	182
Movement in respect of share-based payment arrangements	**(84)**	(182)
At end of period	**1,636**	1,622
Equity at end of period	**23,223**	31,193
Represented by:		
Profit after tax	**23,497**	30,846
Other comprehensive income / (expense)	**(837)**	(1,863)
Total comprehensive income for the period	**22,660**	28,983
Repatriation to Head Office	**(53,792)**	(41,739)
Movement in share-based payment reserve	**-**	-
Equity at beginning of period	**54,355**	43,949
	23,223	31,193

* 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 interim financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

			Banking Group	
Dollars in Thousands	Note	**Unaudited 30.06.16**	Unaudited 30.06.15	Audited 31.12.15
ASSETS				
Cash and demand balances with central banks		**751,391**	749,704	345,799
Advances to banks		**6,248**	74,918	7,601
Debt and equity securities		**527,048**	440,686	447,445
Derivative financial instruments		**266,141**	359,594	313,918
Advances to customers	6	**3,451,347**	3,684,946	3,585,997
Amounts due from related parties	5	**352,571**	703,715	854,687
Other assets		**16,178**	23,559	18,288
Property, plant and equipment		**1,101**	960	997
Deferred tax asset		**1,641**	7,356	-
Goodwill and intangible assets		**15,542**	17,229	16,356
Total Assets		**5,389,208**	6,062,667	5,591,088
LIABILITIES				
Deposits by banks		**208,549**	216,922	185,925
Derivative financial instruments		**272,703**	356,519	314,362
Customer deposits	8	**3,132,853**	3,336,852	3,252,094
Debt securities		**420,215**	759,351	843,716
Amounts due to related parties	5	**1,296,013**	1,312,778	896,759
Other liabilities		**34,847**	46,314	36,430
Current tax liabilities		**805**	2,738	6,871
Deferred tax liablity		**-**	-	576
Total Liabilities		**5,365,985**	6,031,474	5,536,733
Net Assets		**23,223**	31,193	54,355
EQUITY				
Head Office Account		**23,498**	30,846	53,793
Cashflow Hedging Reserve		**(2,937)**	(2,073)	(1,595)
Available-for-Sale Reserve		**1,026**	798	521
Share-based Payment Reserve		**1,636**	1,622	1,636
Total Equity		**23,223**	31,193	54,355

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

STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Banking Group	
	Unaudited 6 months ended	
Dollars in Thousands	**30.06.16**	30.06.15
Cash flows from / (to) operating activities		
Interest received	**92,210**	117,040
Fees and commissions	**16,620**	15,816
Realised trading gain	**8,569**	4,593
Interest paid	**(51,589)**	(62,638)
Operating expenses	**(25,028)**	(23,457)
Taxation paid	**(17,124)**	(16,000)
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	**23,658**	35,354
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	**137,875**	98,598
Amounts due from related parties	**502,131**	(336,185)
Other assets	**1,229**	(2,953)
Other liabilities	**2,376**	4,118
Debt securities issued	**(427,468)**	12,980
Deposits by banks	**22,496**	32,032
Customer deposits	**(119,241)**	155,918
Amounts due to related parties	**393,442**	377,348
Net change in operating assets and liabilities	**512,840**	341,856
Net cash flows from / (to) operating activities	**536,498**	377,210
Cash flows from / (to) investing activities		
Debt securities purchased	**(409,309)**	(309,105)
Debt securities matured	**331,000**	366,196
Acquisition of property, plant and equipment	**(285)**	(439)
Net cash flows from / (to) investing activities	**(78,594)**	56,652
Cash flows from / (to) financing activities		
Repatriation to head office	**(53,792)**	(41,739)
Net cash flows from / (to) financing activities	**(53,792)**	(41,739)
Net increase / (decrease) in cash and cash equivalents	**404,112**	392,123
Effect of exchange rate fluctuations on cash held	**(1)**	3,384
Cash and cash equivalents at beginning of period	**352,949**	425,367
Cash and cash equivalents at end of period	**757,060**	820,874

STATEMENT OF CASH FLOWS *(continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Banking Group	
	Unaudited 6 months ended	
Dollars in Thousands	**30.06.16**	30.06.15
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**751,391**	749,704
Items in the course of collection from other banks	**1**	2
Advances to banks – demand	**6,247**	74,916
Less: items in the course of transmission to other banks	**(579)**	(3,748)
	757,060	820,874

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

Notes to and forming part of the Interim Financial Statements

1. Statement of Accounting Policies

GENERAL ACCOUNTING POLICIES

Reporting Entity

These interim financial statements are for the New Zealand Banking Group ("Banking Group").
Intra-group balances are eliminated in preparing the Banking Group's interim 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.

HSBC Investments New Zealand Limited
This New Zealand incorporated entity provided fund management services to customers and commenced trading operations in June 2008. HSBC Investments New Zealand Limited (HINZ) was wholly owned by HSBC Asia Pacific Holdings (UK) Limited which is wholly owned by HBAP. The unit trusts for which the Company has acted as Manager were closed on 31 October 2014. As a result, the Company ceased trading and was liquidated on 17 February 2016. This has had no impact on the Banking Group 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 interim financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to available for sale 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. All amounts are expressed in New Zealand currency. The presentation currency and functional currency, and all references to "$" is to New Zealand dollars unless otherwise stated.

Particular Accounting Policies

The same accounting policies and methods of computation have been followed in these interim financial statements as were applied in the presentation of the Disclosure Statement for the year ended 31 December 2015.

Comparative Figures

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

From 1 January 2016 we have amended the format of the Statement of Comprehensive Income to include loan impairment charges in net operating income. This format has also been replicated in Note 10 Segment reporting. This aligns with the presentation used by HBAP Group and Group. There has been change to operating profit before tax.

Notes to and forming part of the Interim Financial Statements

1. Statement of Accounting Policies *(continued)*

Risk Management

From 1 January 2016, Group introduced a new liquidity and funding risk framework. It uses the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") regulatory framework as a foundation, but also adds extra metrics, limits and overlays to address risks that are considered not to be adequately reflected by the regulatory framework. The liquidity and funding risk framework is delivered by the Banking Group using approved risk tolerance limits based on the classification of the Banking Group's inherent liquidity risk.

Apart from the framework changes described above, there has been no material change during the six months ended 30 June 2016 to the Banking Group's policies for managing risks in relation to credit, currency, interest rates, equity, liquidity or any material business risk to which the Banking Group is exposed.

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

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.16**	30.06.15
2. Net trading income		
Foreign exchange gains	**5,168**	5,982
Revaluation of derivatives	**1,291**	55
Credit valuation adjustments on derivatives	**(710)**	1,046
Debit valuation adjustments on derivatives	**1,420**	1,098
Loss on termination of hedging instrument in cash flow hedge	**(974)**	-
Gain/ (loss) on hedging instrument in fair value hedge	**(2,076)**	(3,547)
Gain/ (loss) on hedged item on fair value hedge	**2,049**	3,667
	6,168	8,301
3. Other net operating income		
Fee and commission income	**19,054**	19,445
Fee and commission expense	**(2,277)**	(3,455)
Gains/ (losses) on disposal of equipment, fixtures and fittings	**(3)**	(207)
	16,774	15,783
4. Loan impairment charges		
Individually assessed impairment (charges) / releases		
New charges	-	(1)
Releases	-	9,578
Recoveries	-	92
	-	9,669
Collectively assessed impairment (charge) / release	**1,339**	(3,859)
	1,339	5,810

	Banking Group		
Dollars in Thousands	**Unaudited 30.06.16**	Unaudited 30.06.15	Audited 31.12.15

5. 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.

	30.06.16	30.06.15	31.12.15
Assets			
Amounts due from related parties	**352,571**	703,715	854,687
Derivative financial instruments – assets	**114,973**	66,519	105,813
Total related party assets	**467,544**	770,234	960,500
Liabilities			
Amounts due to related parties	**1,296,013**	1,312,778	896,759
Derivative financial instruments – liabilities	**151,110**	288,837	209,530
Total related party liabilities	**1,447,123**	1,601,615	1,106,289

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

	Banking Group		
Dollars in Thousands	**Unaudited 30.06.16**	Unaudited 30.06.15	Audited 31.12.15
6. Advances to customers			
Overdrafts	**119,502**	120,707	136,564
Mortgages	**1,258,094**	1,094,053	1,166,623
Term lending	**1,962,892**	2,335,816	2,158,963
Non-eligible bills	**113,365**	146,588	113,192
Money market loans	**-**	5,900	14,500
Total gross advances to customers	**3,453,853**	3,703,064	3,589,842
Provisions for loan impairment	**(2,506)**	(18,118)	(3,845)
Total net advances to customers	**3,451,347**	3,684,946	3,585,997

7. Additional mortgage information

Residential mortgages by loan-to-valuation ratio

LVR Range	Banking Group			
	Unaudited Principal Amount			
Dollars in millions	**Does not exceed 80% $m**	**Exceeds 80% and not 90% $m**	**Exceeds 90% $m**	**Total $m**
30 June 2016 (Unaudited)				
Value of exposures on balance sheet	**1,243.1**	**12.0**	**3.0**	**1,258.1**
Value of exposures off balance sheet	**20.9**	**-**	**-**	**20.9**
Total value of exposures	**1,264.0**	**12.0**	**3.0**	**1,279.0**

	Banking Group		
Dollars in Thousands	**Unaudited 30.06.16**	Unaudited 30.06.15	Audited 31.12.15
8. Customer deposits			
Current accounts	**1,874,117**	2,031,968	2,034,091
Savings and deposit accounts	**1,208,723**	1,219,012	1,206,649
Other deposit accounts	**50,013**	85,872	11,354
Total customer deposits at amortised cost	**3,132,853**	3,336,852	3,252,094
9. Additional financial disclosures on the statement of financial position			
Total interest earning and discount bearing assets	**5,085,212**	5,651,389	5,237,245
Total interest and discount bearing liabilities	**4,826,048**	5,386,395	4,947,793
Total liabilities net of amounts due to related parties	**3,918,862**	4,429,859	4,430,444
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 Interim Financial Statements *(continued)*

10. Segment reporting

The Banking Group's operating segments are organised into three business segments representing the products and services offered to customers. 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.

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

The Banking Group operates primarily in New Zealand 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 treasury and investment banking operations.

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

	Banking Group					
	Unaudited 6 months ended 30.06.16					
Dollars in Thousands	**RBWM**	**CMB**	**GBM**	**Total Reportable Segments**	**Reconciling items**	**Consolidated**
Net interest income	**15,331**	**20,939**	**4,765**	**41,035**	**(257)**	**40,778**
Net trading income	**879**	**1,703**	**3,607**	**6,189**	**(21)**	**6,168**
Other net operating income	**(361)**	**12,984**	**3,685**	**16,308**	**466**	**16,774**
Net operating income before impairment	**15,849**	**35,626**	**12,057**	**63,532**	**188**	**63,720**
Loan impairment (charges) / release	**(30)**	**1,369**	**-**	**1,339**	**-**	**1,339**
Net operating income	**15,819**	**36,995**	**12,057**	**64,871**	**188**	**65,059**
Operating expenses	**(11,121)**	**(15,114)**	**(5,404)**	**(31,639)**	**(757)**	**(32,396)**
Operating profit before tax	**4,698**	**21,881**	**6,653**	**33,232**	**(569)**	**32,663**
Advances to customers	**1,285,384**	**2,165,963**	**-**	**3,451,347**	**-**	**3,451,347**
Customer deposits	**1,998,419**	**863,181**	**271,253**	**3,132,853**	**-**	**3,132,853**

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

10. Segment reporting (continued)

	Banking Group					
	Audited 12 months ended 31.12.15					
Dollars in Thousands	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Net interest income	29,537	49,246	7,824	86,607	8,429	95,036
Net trading income	2,016	3,765	8,983	14,764	(60)	14,704
Other net operating income	254	31,111	5,662	37,027	(395)	36,632
Net operating income before impairment	31,807	84,122	22,469	138,398	7,974	146,372
Loan impairment (charges) / release	(572)	35,712	-	35,140	-	35,140
Net operating income	31,235	119,834	22,469	173,538	7,974	181,512
Operating expenses	(22,529)	(29,687)	(11,315)	(63,531)	(310)	(63,841)
Operating profit before tax	8,706	90,147	11,154	110,007	7,664	117,671
Advances to customers	1,202,818	2,383,179	-	3,585,997	-	3,585,997
Customer deposits	2,078,997	907,484	265,613	3,252,094	-	3,252,094

	Banking Group					
	Unaudited 6 months ended 30.06.15					
Dollars in Thousands	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Net interest income	14,576	21,534	5,861	41,971	4,111	46,082
Net trading income	1,039	1,914	5,384	8,337	(36)	8,301
Other net operating income	234	12,874	2,883	15,991	(208)	15,783
Net operating income before impairment	15,849	36,322	14,128	66,299	3,867	70,166
Loan impairment (charges) / release	42	5,768	-	5,810	-	5,810
Net operating income	15,891	42,090	14,128	72,109	3,867	75,976
Operating expenses	(11,012)	(15,117)	(6,722)	(32,851)	(234)	(33,085)
Operating profit before tax	4,879	26,973	7,406	39,258	3,633	42,891
Advances to customers	1,135,735	2,549,211	-	3,684,946	-	3,684,946
Customer deposits	2,186,792	857,446	292,614	3,336,852	-	3,336,852

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

11. Asset quality

	Banking Group		
Dollars in Thousands	**Unaudited 30.06.16**	Unaudited 30.06.15	Audited 31.12.15
In the current and prior periods, there is only one class of impaired financial assets, being advances to customers.			
Past due but not impaired			
Less than 30 days	**44,307**	39,907	61,127
At least 30 days but less than 60 days	**815**	489	704
At least 60 days but less than 90 days	**1,015**	112	3,274
At least 90 days or more	**-**	-	-
Carrying amount	**46,137**	40,508	65,105
Gross individually impaired assets [1]			
Balance at the beginning of the period	**3,503**	121,913	121,913
Transfers from performing	**412**	1,650	2,110
Transfers to performing	**-**	-	(21,686)
Write-offs	**-**	(1)	(441)
Repayment	**(353)**	(47,798)	(98,393)
Balance at the end of the period	**3,562**	75,764	3,503
Individual provision for loan impairment			
Balance at the beginning of the period	**865**	20,720	20,720
New and additional provisions charged to profit or loss	**-**	1	782
Provisions released during the period to profit or loss	**-**	(9,578)	(17,932)
Write-offs	**-**	(1)	(472)
Discount unwind [2]	**-**	(2,117)	(2,233)
Balance at the end of the period	**865**	9,025	865
Collective provision for loan impairment			
Balance at the beginning of the period	**2,980**	5,234	5,234
Charges / (releases) during the year to profit or loss	**(1,339)**	3,859	(2,254)
Balance at the end of the period	**1,641**	9,093	2,980
Total provisions for loan impairment	**2,506**	18,118	3,845

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

There are no restructured assets, assets acquired through the enforcement of security or assets under administration as at 30 June 2016 (June 2015: nil; December 2105: nil). The aggregate amount as at 30 June 2016 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 $13 thousand (June 2015: $17.6m; December 2015: $10 thousand).

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

12. Fair value of financial instruments

Determination of fair value of financial instruments carried at fair value

Fair values are determined according to the following hierarchy:

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

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

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

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

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

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

	Banking Group			
Dollars in Thousands	**Unaudited 30.06.16**	**Unaudited 30.06.16**	**Unaudited 30.06.16**	**Unaudited 30.06.16**
	Level 1	**Level 2**	**Level 3**	**TOTAL**
ASSETS				
Debt and equity securities	402,061	124,965	22	527,048
Derivatives financial instruments	-	266,141	-	266,141
LIABILITIES				
Derivatives financial instruments	-	272,703	-	272,703

	Banking Group			
Dollars in Thousands	Unaudited 30.06.15	Unaudited 30.06.15	Unaudited 30.06.15	Unaudited 30.06.15
	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Debt and equity securities	280,815	159,849	22	440,686
Derivatives financial instruments	-	359,594	-	359,594
LIABILITIES				
Derivatives financial instruments	-	356,519	-	356,519

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

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

	Banking Group			
Dollars in Thousands	Audited 31.12.15	Audited 31.12.15	Audited 31.12.15	Audited 31.12.15
	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Debt and equity securities	314,450	132,973	22	447,445
Derivatives financial instruments	-	313,918	-	313,918
LIABILITIES				
Derivatives financial instruments	-	314,362	-	314,362

There have been no transfers between levels 1 and 2 in the period to 30 June 2016 (June 2015: none; December 2015: 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.

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

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

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

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

Methodologies

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

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

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

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 30.06.16	**Unaudited 30.06.16**	Unaudited 30.06.15	Unaudited 30.06.15	Audited 31.12.15	Audited 31.12.15
Dollars in Thousands	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
ASSETS						
Advances to customers	3,451,347	3,458,767	3,684,946	3,700,249	3,585,997	3,596,102
LIABILITIES						
Customer deposits	3,132,853	3,135,626	3,336,852	3,339,067	3,252,094	3,255,055
Debt securities issued	420,215	424,482	759,351	759,458	843,716	843,732
Amounts due to related parties	1,296,013	1,302,190	1,312,778	1,313,558	896,759	897,005

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 and deposits by banks, other assets and other liabilities.

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

13. Concentrations of credit and funding 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.

	Banking Group
Dollars in Thousands	**Unaudited 30.06.16**
On-balance sheet credit exposures	
Cash and demand balances with central banks	**751,391**
Advances to banks	**6,248**
Debt and equity securities	**527,048**
Derivative financial instruments	**266,141**
Advances to customers	**3,451,347**
Amounts due from related parties	**352,571**
Other assets	**15,834**
	5,370,580
Off-balance sheet credit exposures	**2,285,942**
Total credit exposures	**7,656,522**

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	**1,511,403**
Commercial and industrial	**2,328,935**
Commercial real estate and construction	**805,108**
Banks and financial institutions	**2,186,367**
Agriculture, forestry and mining	**59,297**
Transport	**144,079**
Energy	**89,827**
Government	**74,512**
Other	**456,994**
	7,656,522

Concentrations of credit risk by geographical area	
New Zealand	**6,464,543**
Hong Kong	**352,025**
Australia	**248,385**
China	**118,788**
Great Britain	**91,440**
United States	**217,372**
Other Overseas	**163,969**
	7,656,522

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

13. Concentrations of credit and funding risk *(continued)*

Concentration of Credit Exposures to Individual counterparties

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

	Banking Group
Dollars in Thousands	**Unaudited 30.06.16**
Concentrations of funding	
Concentrations of funding by product	
Deposits by banks	**208,549**
Customer deposits	**3,132,853**
Debt securities	**420,215**
Amounts due to related parties	**1,296,013**
	5,057,630
Concentrations of funding by industry	
Agriculture, forestry, fishing and mining	**51,019**
Manufacturing	**241,235**
Wholesale and retail trade	**135,257**
Accommodation and restaurants	**55,444**
Banking and finance	**2,060,164**
Property and business services	**266,026**
Individual	**2,064,558**
Other	**183,927**
	5,057,630
Concentrations of funding by geographical area	
New Zealand	**2,337,646**
China	**349,154**
Great Britain	**181,270**
Hong Kong	**1,512,034**
Japan	**124,196**
Singapore	**68,686**
Taiwan	**58,726**
United States	**169,189**
Other Overseas	**256,729**
	5,057,630

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

14. 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 2016 (Unaudited)								
Assets								
Cash and demand balances with central banks	**751**	**-**	**-**	**-**	**-**	**751**	**-**	**751**
Advances to banks	**6**	**-**	**-**	**-**	**-**	**6**	**-**	**6**
Debt and equity securities	**133**	**-**	**40**	**194**	**160**	**527**	**-**	**527**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**266**	**266**
Advances to customers	**2,440**	**152**	**181**	**423**	**255**	**3,451**	**-**	**3,451**
Amounts due from related parties	**350**	**-**	**-**	**-**	**-**	**350**	**3**	**353**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**16**
Total financial assets	**3,680**	**152**	**221**	**617**	**415**	**5,085**	**285**	**5,370**
Liabilities								
Deposits by banks	**208**	**-**	**-**	**-**	**-**	**208**	**-**	**208**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**273**	**273**
Customer deposits	**2,556**	**289**	**208**	**40**	**26**	**3,119**	**14**	**3,133**
Debt securities	**346**	**74**	**-**	**-**	**-**	**420**	**-**	**420**
Amounts due to related parties	**1,079**	**-**	**-**	**-**	**-**	**1,079**	**217**	**1,296**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**35**	**35**
Total financial liabilities	**4,189**	**363**	**208**	**40**	**26**	**4,826**	**539**	**5,365**
Off-balance sheet financial instruments								
Net notional interest rate contracts	**314**	**5**	**(10)**	**(202)**	**(127)**	**(20)**	**-**	**(20)**

15. Liquidity risk management

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

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

	Banking Group		
Dollars in Thousands	**Unaudited 30.06.16**	Unaudited 30.06.15	Audited 31.12.15
Demand balances with the central bank	**751,391**	749,704	345,799
Available-for-sale debt securities and treasury bills	**427,101**	340,772	347,506
	1,178,492	1,090,476	693,305

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

15. Liquidity risk management *(continued)*

Maturity Analysis

The table below analyses the Banking Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

	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 2016 (Unaudited)								
Assets								
Cash and demand balances with central banks	**751**	-	-	-	-	-	-	**751**
Advances to banks	**6**	-	-	-	-	-	-	**6**
Debt and equity securities	**-**	**100**	**32**	**40**	**355**	**-**	**-**	**527**
Advances to customers	**236**	**97**	**196**	**292**	**1,503**	**1,127**	**-**	**3,451**
Amounts due from related parties	**26**	**326**	**1**	-	-	-	-	**353**
Other assets	**-**	**13**	**3**	-	-	-	**-**	**16**
Deferred taxation	-	-	-	-	-	-	**2**	**2**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**16**
Fixed assets	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Total	**1,019**	**536**	**232**	**332**	**1,858**	**1,127**	**19**	**5,123**
Derivative financial instruments – inflow	**-**	**326**	**42**	**218**	**861**	**2,016**	**-**	**3,463**
Derivative financial instruments – (outflow)	**-**	**(283)**	**-**	**(141)**	**(841)**	**(1,932)**	**-**	**(3,197)**
Derivative financial instruments - assets	**-**	**43**	**42**	**77**	**20**	**84**	**-**	**266**
Liabilities								
Deposits by banks	**208**	-	-	-	-	-	**-**	**208**
Customer deposits	**1,930**	**322**	**316**	**487**	**76**	**2**	**-**	**3,133**
Debt securities	**-**	**100**	**46**	**74**	**200**	**-**	**-**	**420**
Amounts due to related parties	**267**	**67**	**11**	**-**	**951**	**-**	**-**	**1,296**
Other liabilities	**1**	**13**	**11**	**6**	**4**	**-**	**-**	**35**
Current taxation	-	-	**1**	-	-	-	**-**	**1**
Total	**2,406**	**502**	**385**	**567**	**1,231**	**2**	**-**	**5,093**
Derivative financial instruments – (inflow)	**-**	**(283)**	**-**	**(141)**	**(841)**	**(1,931)**	**-**	**(3,196)**
Derivative financial instruments – outflow	**-**	**325**	**42**	**227**	**861**	**2,014**	**-**	**3,469**
Derivative financial instruments – liabilities	**-**	**42**	**42**	**86**	**20**	**83**	**-**	**273**
Net assets	**(1,387)**	**35**	**(153)**	**(244)**	**627**	**1,126**	**19**	**23**

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

15. Liquidity risk management *(continued)*

Maturity Analysis – undiscounted cashflows basis

The table below analyses the Banking Group's financial assets and 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 2016 (Unaudited)								
Financial Assets								
Cash and demand balances with central banks	**751**	**-**	**-**	**-**	**-**	**-**	**-**	**751**
Advances to banks	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**6**
Debt and equity securities	**-**	**100**	**37**	**52**	**383**	**-**	**-**	**572**
Advances to customers	**236**	**108**	**216**	**382**	**1,827**	**1,975**	**-**	**4,744**
Amounts due from related parties	**26**	**326**	**1**	**-**	**-**	**-**	**-**	**353**
Other assets	**-**	**13**	**3**	**-**	**-**	**-**	**-**	**16**
Total non-derivative financial assets	**1,019**	**547**	**257**	**434**	**2,210**	**1,975**	**-**	**6,442**
Derivative financial instruments – held for trading purposes	**265**	**-**	**-**	**-**	**-**	**-**	**-**	**265**
Derivative financial instruments – held for hedging purposes (net settled) Inflow / (outflow)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total undiscounted financial assets	**1,284**	**547**	**257**	**434**	**2,210**	**1,975**	**-**	**6,707**
Financial Liabilities								
Deposits by banks	**208**	**-**	**-**	**-**	**-**	**-**	**-**	**208**
Customer deposits	**1,930**	**324**	**321**	**501**	**85**	**2**	**-**	**3,163**
Debt securities	**-**	**100**	**48**	**80**	**210**	**-**	**-**	**438**
Amounts due to related parties	**267**	**69**	**15**	**16**	**956**	**-**	**-**	**1,323**
Other liabilities	**1**	**13**	**11**	**6**	**4**	**-**	**-**	**35**
Total non-derivative financial liabilities	**2,406**	**506**	**395**	**603**	**1,255**	**2**	**-**	**5,167**
Derivative financial instruments – held for trading purposes	**262**	**-**	**-**	**-**	**-**	**-**	**-**	**262**
Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow	**-**	**-**	**1**	**4**	**5**	**-**	**-**	**10**
Total undiscounted financial liabilities	**2,668**	**506**	**396**	**607**	**1,260**	**2**	**-**	**5,439**
Undrawn loan commitments	**614**	**-**	**1,204**	**-**	**-**	**-**	**-**	**1,818**

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

16. 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*
End-of-period exposure at 30 June 2016 (Unaudited)		
Interest rate risk	**97.38**	**7.79**
Foreign currency risk	**0.38**	**0.03**
Equity risk	**-**	**-**
Peak end-of-day exposure period 1 January 2016 to 30 June 2016 (Unaudited)		
Interest rate risk	**102.13**	**8.17**
Foreign currency risk	**0.50**	**0.04**
Equity risk	**-**	**-**

17. Contingent liabilities and other commitments

Contingent liabilities

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The amounts below represent the amount at risk should contracts be fully drawn upon and clients default.

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.16**	Unaudited 30.06.15	Audited 31.12.15
Direct credit substitutes	**60,468**	63,496	60,454
Transaction related contingent items	**272,378**	266,730	274,588
Trade related contingent items	**126,404**	153,569	109,684
Commitments, maturity one year or more	**1,062,793**	1,196,729	1,144,938
Commitments, maturity up to one year	**763,899**	614,888	746,441
	2,285,942	2,295,412	2,336,105
Capital commitments			
Contracted expenditure	**186**	47	-

Capital commitments relate to the purchase of equipment.

18. Insurance and non-financial activities

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

19. Subsequent events

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

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

20. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Unaudited 6 months ended 30.06.16**	Unaudited 6 months ended 30.06.15	Audited 12 months ended 31.12.15
Profitability			
Net profit after tax	**43,245**	59,902	99,983
Net profit after tax over the previous 12 month period as a percentage of average total assets	**1.1%**[1]	1.5%[1]	1.4%[1]
Size			
Total assets	**7,404,171**	7,167,665	6,953,683
Percentage increase in total assets over the previous 12 month period	**3.3%**	5.9%	1.1%
Asset quality			
Individually impaired assets	**Not Available**[2]	15,323	16,786
Individual impairment provision against advances to customers	**(7,862)**	(6,590)	(7,040)
Collective impairment provision against advances to customers	**(4,868)**	(4,247)	(4,489)
Individually impaired assets / total assets	**Not Available**[2]	0.2%	0.2%
Individual impairment provision / individually impaired assets	**Not Available**[2]	43.0%	41.9%

[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] At the date of signing this Disclosure Statement, the amount of HBAP Group individually impaired assets as at 30 June 2016 was not publicly available.

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

21. 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 2016.

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/financial-and-regulatory-reports.

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

	Unaudited 30.06.16	Unaudited 30.06.15	Unaudited 31.12.15
Basel III Capital Ratios			
Common Equity Tier 1 (CET1) capital	**16.1%**	14.3%	15.6%
Tier 1 capital	**17.3%**	15.3%	16.6%
Total capital	**19.2%**	17.4%	18.6%

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

Directors' and New Zealand Chief Executive Officer's Statements

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

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

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

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

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

over the six months ended 30 June 2016.

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

26 August 2016

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

Independent Auditors' Review Report

To the Directors of The Hongkong and Shanghai Banking Corporation Limited

Report on the Financial Statements

We have reviewed pages 10 to 32 of the half year Disclosure Statement of The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch (the "Branch"), which consists of 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, 10, 12 and 14 of the Order. The financial statements comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and 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 selected explanatory information for the Banking Group. The Banking Group comprises the New Zealand operations of The Hongkong and Shanghai Banking Corporation Limited.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of The Hongkong and Shanghai Banking Corporation Limited (the "Directors") for the preparation and presentation of the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and for such internal controls as the Directors determine are 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 for the preparation and presentation of supplementary information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 9, 10, 12 and 14 of the Order.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements and the supplementary information, disclosed in accordance with Clause 26 and Schedules 5, 7, 9, 10, 12 and 14 of the Order, presented by the Directors, based on our review.

Our responsibility is to express a conclusion on the financial statements 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* and International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility is to express a conclusion on 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, 10, 12 and 14 of the Order.

Our responsibility is to express a conclusion on 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:

(a) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and
(b) disclosed in accordance with Schedule 9 of the Order.

Independent Auditors' Review Report

The Hongkong and Shanghai Banking Corporation Limited

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 auditors 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 of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries 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 this half year Disclosure Statement.

We are independent of the Banking Group. We carry out other assignments on behalf of the Banking Group in the areas of taxation, immigration advisory and other 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 auditors of the Banking Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that:

(a) the financial statements on pages 10 to 32 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*;

(b) the supplementary information prescribed by Schedules 5, 7, 10, 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 prescribed by Schedule 9 of the Order, is not, in all material respects:
   (i) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and
   (ii) disclosed in accordance with Schedule 9 of the Order.

Restriction on Use of Our Report

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in a 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 Banking Group and the Directors, as a body, for our review procedures, for this report or for the conclusions we have formed.

PricewaterhouseCoopers

Chartered Accountants Auckland
26 August 2016

HSBC