The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

31 March 2016

HSBC

Disclosure Statement
For the Three Months Ended 31 March 2016

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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 subsidiary and associated companies.

Ultimate Holding Company

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

Access to Parental Disclosures

The most recent publicly available financial statements of HBAP Group and HSBC Holdings plc can be found at HSBC Holdings plc's website, www.hsbc.com/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
PwC
PricewaterhouseCoopers Tower
188 Quay Street
Auckland
New Zealand

Overseas Banking Group
PwC
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:

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, 1979

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

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, Cheung Kong (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.

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2016

		Banking Group	
		Unaudited 3 months ended	
Dollars in Thousands	Note	**31.03.16**	31.03.15
Interest income		**46,786**	58,495
Interest expense		**(27,407)**	(34,418)
Net interest income		**19,379**	24,077
Net trading income	2	**7,625**	3,298
Other net operating income	3	**8,349**	7,831
Net operating income before loan impairment charges		**35,353**	35,206
Loan impairment (charges) / releases	4	**1,023**	(2,218)
Net operating income		**36,376**	32,988
Operating expenses		**(15,803)**	(14,934)
Operating profit before tax		**20,573**	18,054
Income tax expense		**(5,772)**	(5,071)
Profit after tax		**14,801**	12,983
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Cashflow hedges		**(2,969)**	(1,326)
Income taxes on cashflow hedges		**831**	371
Available-for-sale financial assets		**834**	114
Income taxes on available-for-sale financial assets		**(233)**	(32)
Other comprehensive income / (expense) for the period		**(1,537)**	(873)
Total comprehensive income for the period		**13,264**	12,110

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

STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2016

	Banking Group	
	Unaudited	
	3 months ended	
Dollars in Thousands	**31.03.16**	31.03.15
Head Office Account *		
At beginning of period	**53,793**	41,739
Repatriation to Head Office	**-**	-
Profit after tax	**14,801**	12,983
At end of period	**68,594**	54,722
Cashflow Hedging Reserve		
At beginning of period	**(1,595)**	103
Fair value changes taken to equity	**(3,634)**	(1,244)
Transferred to the income statement	**665**	(82)
Tax on movements and transfers	**831**	371
At end of the year	**(3,733)**	(852)
Available-for-Sale Reserve		
At beginning of period	**521**	485
Fair value changes taken to equity	**3,229**	2,047
Transferred to the income statement	**(2,395)**	(1,933)
Tax on movements and transfers	**(233)**	(32)
At end of the year	**1,122**	567
Share-based Payment Reserve		
At beginning of period	**1,636**	1,622
Transferred to the income statement	**47**	90
Movement in share-based payment arrangements	**(47)**	(90)
At end of the year	**1,636**	1,622
Equity at end of period	**67,619**	56,059
Represented by:		
Profit after tax	**14,801**	12,983
Other comprehensive income / (expense)	**(1,537)**	(873)
Total comprehensive income for the period	**13,264**	12,110
Repatriation to Head Office	**-**	-
Movement in other reserve	**-**	-
Equity at beginning of period	**54,355**	43,949
	67,619	56,059

* 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 31 MARCH 2016

		Banking Group		
Dollars in Thousands	Note	**Unaudited 31.03.16**	Unaudited 31.03.15	Audited 31.12.15
ASSETS				
Cash and demand balances with central banks		**716,127**	750,075	345,799
Advances to banks		**7,770**	91,586	7,601
Debt and equity securities		**482,718**	490,502	447,445
Derivative financial instruments	6	**284,067**	238,130	313,918
Advances to customers	5	**3,494,442**	3,917,035	3,585,997
Amounts due from related parties	6	**374,629**	325,342	854,687
Other assets		**19,497**	24,107	18,288
Fixed assets		**911**	973	997
Deferred taxation		**506**	8,364	-
Intangible assets		**15,920**	17,665	16,356
Total Assets		**5,396,587**	5,863,743	5,591,088
LIABILITIES				
Deposits by banks		**190,653**	200,658	185,925
Derivative financial instruments	6	**288,199**	232,366	314,362
Customer deposits	7	**3,149,892**	3,180,091	3,252,094
Debt securities		**620,875**	795,367	843,716
Amounts due to related parties	6	**1,035,449**	1,349,691	896,759
Other liabilities		**41,895**	44,854	36,430
Current tax liabilities		**2,005**	4,657	6,871
Deferred tax liability		**-**	-	576
Total Liabilities		**5,328,968**	5,807,684	5,536,733
Net Assets		**67,619**	56,059	54,355
EQUITY				
Head Office Account		**68,594**	54,722	53,793
Cashflow Hedging Reserve		**(3,733)**	(852)	(1,595)
Available for Sale Reserve		**1,122**	567	521
Other Reserve		**1,636**	1,622	1,636
Total Equity		**67,619**	56,059	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 THREE MONTHS ENDED 31 MARCH 2016

	Banking Group	
	Unaudited 3 months ended	
Dollars in Thousands	**31.03.16**	31.03.15
Cash flows from / (to) operating activities		
Interest received	**44,316**	57,095
Fees and commissions	**8,225**	7,939
Realised trading gain / (loss)	**6,213**	25,044
Interest paid	**(25,875)**	(29,045)
Operating expenses	**(12.979)**	(11,903)
Taxation paid	**(11,123)**	(8,500)
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	**8,777**	40,630
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	**93,262**	(141,692)
Amounts due from related parties	**480,075**	42,189
Other assets	**1,157**	(1,560)
Other liabilities	**6,583**	2,026
Debt securities issued / (redeemed)	**(225,484)**	52,291
Deposits by banks	**4,578**	19,382
Customer deposits	**(102,202)**	(843)
Amounts due to related parties	**136,408**	420,382
Net change in operating assets and liabilities	**394,377**	392,175
Net cash flows from / (to) operating activities	**403,154**	432,805
Cash flows to investing activities		
Debt and equity securities matured	**231,000**	121,696
Debt and equity securities (purchased)	**(263,641)**	(116,431)
Acquisition of fixed assets	**(1)**	(302)
Net cash flows to investing activities	**(32,642)**	4,963
Cash flows from / (to) financing activities		
Repatriation to head office	**-**	-
Net cash flows from / (to) financing activities	**-**	-
Net increase / (decrease) in cash and cash equivalents	**370,512**	437,768
Effect of exchange rate fluctuations on cash held	**(165)**	(21,611)
Cash and cash equivalents at beginning of period	**352,949**	425,367
Cash and cash equivalents at end of period	**723,296**	841,524

STATEMENT OF CASH FLOWS *(continued)*
FOR THE THREE MONTHS ENDED 31 MARCH 2016

	Banking Group	
	Unaudited **3 months ended**	
Dollars in Thousands	**31.03.16**	31.03.15
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**716,127**	750,075
Items in the course of collection from other banks[1]	**9**	110
Advances to banks – demand	**7,761**	91,476
Less: items in the course of transmission to other banks[1]	**(601)**	(137)
	723,296	841,524

[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 Interim Financial Statements

1. Statement of Accounting Policies

GENERAL ACCOUNTING POLICIES

Reporting Entity

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

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

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

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

HSBC Investments New Zealand Limited
This New Zealand incorporated entity 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 struck off on 17 February 2016. This has had no material impact on the Banking Group financial statements.

Non-controlled Structured Entities

A structured entity ("SE") is consolidated when the Banking Group is exposed, or has rights, to variable returns from its involvement with the SE and has the power to affect those returns.

The Banking Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities to earn income in the form of interest and fees.

Transactions eliminated on consolidation

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

Basis of Reporting

These interim financial statements are prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) ("the Order") 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. 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.

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

1. Statement of Accounting Policies *(continued)*

Particular Accounting Policies

These interim financial statements have been prepared in accordance with NZ IAS 34 and should be read in conjunction with the Disclosure Statement for the year ended 31 December 2015. 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. There have been no material changes to the comparative figures.

Risk Management

From 1 January 2016, the Banking Group implemented a new liquidity and funding risk management framework. The new internal framework uses the Basel Liquidity Coverage Ratio and Net Stable Funding Ratio regulatory framework as a foundation. This change ensures that the regulatory framework and our internal framework for managing liquidity and funding risks are directionally aligned.

There were no other material changes 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 during the three months ended 31 March 2016.

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

	Banking Group Unaudited 3 months ended	
Dollars in Thousands	**31.03.16**	31.03.15
2. Net trading income		
Foreign exchange gains	**6,065**	2,343
Gains / (losses) on revaluation of derivatives	**(2,312)**	50
Credit valuation adjustments on derivatives	**1,901**	371
Debit valuation adjustments on derivatives	**1,951**	490
Gains/ (losses) on hedging instrument in fair value hedge	**(2,375)**	(1,889)
Gains/ (losses) on hedged item on fair value hedge	**2,395**	1,933
	7,625	3,298
3. Other net operating income		
Fee and commission income	**9,314**	9,543
Fee and commission expense	**(965)**	(1,512)
Gains/ (losses) on disposal of equipment, fixtures and fittings	**-**	(200)
	8,349	7,831
4. Loan impairment charges		
Individually assessed impairment (charges) / releases		
New charges	-	(1)
Releases	-	20
Recoveries	-	2
	-	21
Collectively assessed impairment (charge) / release	**1,023**	(2,039)
	1,023	(2,218)

5. Advances to customers

		Banking Group	
	Unaudited	Unaudited	Audited
Dollars in Thousands	**31.03.16**	31.03.15	31.12.15
Overdrafts	**105,796**	111,463	136,564
Mortgages	**1,194,815**	1,039,063	1,166,623
Term Lending	**2,087,796**	2,593,830	2,158,963
Non-eligible bills	**108,857**	179,336	113,192
Money market loans	**-**	20,000	14,500
Total gross advances to customers	**3,497,264**	3,943,692	3,589,842
Provision for loan impairment	**(2,822)**	(26,657)	(3,845)
Total net advances to customers	**3,494,442**	3,917,035	3,585,997

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

6. 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.

	Banking Group		
Dollars in Thousands	**Unaudited 31.03.16**	Unaudited 31.03.15	Audited 31.12.15
Assets			
Amounts due from related parties	**374,629**	325,342	854,687
Derivative financial instruments – assets	**100,245**	71,305	105,813
Total related party assets	**474,874**	396,647	960,500
Liabilities			
Amounts due to related parties	**1,035,449**	1,349,691	896,759
Derivative financial instruments – liabilities	**183,422**	166,291	209,530
Total related party liabilities	**1,218,871**	1,515,982	1,106,289

7. Customer Deposits

Current accounts	**1,899,186**	1,882,209	2,034,091
Savings and deposit accounts	**1,239,528**	1,244,805	1,206,649
Other deposit accounts	**11,178**	53,077	11,354
Total customer deposits at amortised cost	**3,149,892**	3,180,091	3,252,094

8. Additional financial disclosures on the statement of financial position

Total interest earning and discount bearing assets	**5,055,124**	5,559,712	5,237,245
Total interest and discount bearing liabilities	**4,763,477**	5,296,293	4,947,793
Total liabilities net of amounts due to related parties	**4,110,097**	4,291,702	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)*

9. 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.

	Banking Group **Unaudited** **3 months ended 31.03.16**					
Dollars in Thousands	**RBWM**	**CMB**	**GBM**	**Total Reportable Segments**	**Reconciling items**	**Consolidated**
Net interest income	**7,699**	**10,375**	**1,476**	**19,550**	**(171)**	**19,379**
Net trading income	**457**	**838**	**6,366**	**7,661**	**(36)**	**7,625**
Other net operating income	**(62)**	**6,574**	**1,601**	**8,113**	**236**	**8,349**
Operating income	**8,094**	**17,787**	**9,443**	**35,324**	**29**	**35,353**
Loan impairment (charges) / release	**1**	**1,022**	**-**	**1,023**	**-**	**1,023**
Operating expense	**(5,683)**	**(7,487)**	**(2,613)**	**(15,783)**	**(20)**	**(15,803)**
Operating profit before tax	**2,412**	**11,322**	**6,830**	**20,564**	**9**	**20,573**
Advances to customers	**1,227,230**	**2,267,212**	**-**	**3,494,442**	**-**	**3,494,442**
Customer deposits	**2,019,652**	**858,097**	**272,143**	**3,149,892**	**-**	**3,149,892**

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

9. Segment Reporting *(continued)*

	Banking Group Unaudited 3 months ended 31.03.15					
Dollars in Thousands	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Net interest income	7,279	11,404	3,298	21,981	2,096	24,077
Net trading income	429	927	1,944	3,300	(2)	3,298
Other net operating income	242	6,331	1,363	7,936	(105)	7,831
Operating income	7,950	18,662	6,605	33,217	1,989	35,206
Loan impairment (charges) / release	21	(2,239)	-	(2,218)	-	(2,218)
Operating expense	(5,066)	(7,151)	(2,573)	(14,790)	(144)	(14,934)
Operating profit before tax	2,905	9,272	4,032	16,209	1,845	18,054
Advances to customers	1,081,958	2,835,077	-	3,917,035	-	3,917,035
Customer deposits	2,046,870	904,581	228,640	3,180,090	-	3,180,091

10. Asset quality

	Banking Group		
Dollars in Thousands	**Unaudited 31.03.16**	Unaudited 31.03.15	Audited 31.12.15
In the current and prior period, there is only one class of impaired financial assets, being advances to customers.			
Gross individually impaired assets [1]	**3,159**	130,937	3,503
Gross advances that are at least 90 days past due but not impaired	-	-	-
Specific provision for loan impairment			
Balance at the beginning of the period	**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	**-**	(20)	(17,932)
Write-offs	**-**	(1)	(472)
Discount unwind [2]	**-**	(1,516)	(2,233)
Balance at the end of the period	**865**	19,184	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	**(1,023)**	2,239	(2,254)
Balance at the end of the period	**1,957**	7,473	2,980
Total provisions for loan impairment	**2,822**	26,657	3,845

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

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

11. Additional mortgage information

Residential mortgages by loan-to-valuation ratio

	Banking Group			
	Principal Amount			
Dollars in millions	**Does not exceed 80% $m**	**Exceeds 80% and not 90% $m**	**Exceeds 90% $m**	**Total $m**
31 March 2016 (Unaudited)				
Value of exposures on balance sheet	**1,185.4**	**7.2**	**2.2**	**1,194.8**
Value of exposures off balance sheet	**20.9**	**-**	**-**	**20.9**
Total value of exposures	**1,206.3**	**7.2**	**2.2**	**1,215.7**
31 March 2015 (Unaudited)				
Value of exposures on balance sheet	1,020.4	16.3	2.4	1,039.1
Value of exposures off balance sheet	24.2	-	-	24.2
Total value of exposures	1,044.6	16.3	2.4	1,063.3
31 December 2015 (Audited)				
Value of exposures on balance sheet	1,153.9	10.6	2.1	1,166.6
Value of exposures off balance sheet	23.4	-	-	23.4
Total value of exposures	1,177.3	10.6	2.1	1,190.0

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.

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

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

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

	Banking Group			
Dollars in Thousands	**Unaudited 31.03.16 Level 1**	**Unaudited 31.03.16 Level 2**	**Unaudited 31.03.16 Level 3**	**Unaudited 31.03.16 TOTAL**
ASSETS				
Debt and equity securities	**357,718**	**124,978**	**22**	**482,718**
Derivatives financial instruments	**-**	**284,067**	**-**	**284,067**
LIABILITIES				
Derivatives financial instruments	**-**	**288,199**	**-**	**288,199**

	Banking Group			
Dollars in Thousands	Unaudited 31.03.15 Level 1	Unaudited 31.03.15 Level 2	Unaudited 31.03.15 Level 3	Unaudited 31.03.15 TOTAL
ASSETS				
Debt and equity securities	345,032	145,448	22	490,502
Derivatives financial instruments	-	238,130	-	238,130
LIABILITIES				
Derivatives financial instruments	-	232,366	-	232,366

	Banking Group			
Dollars in Thousands	Audited 31.12.15 Level 1	Audited 31.12.15 Level 2	Audited 31.12.15 Level 3	Audited 31.12.15 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 31 March 2016 (March 2015: none; December 2015: none).

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.

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

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

Methodologies *(continued)*

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

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

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

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

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

Fair value of financial instruments not carried at fair value

The following tables summarise the carrying values and fair values of financial assets and liabilities which are not carried at fair value where the fair value is different carrying value.

	Banking Group					
	Unaudited 31.03.16	**Unaudited 31.03.16**	Unaudited 31.03.15	Unaudited 31.03.15	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	**3,494,442**	**3,503,108**	3,917,035	3,928,111	3,585,997	3,596,102
LIABILITIES						
Customer deposits	**3,149,892**	**3,153,105**	3,180,091	3,181,998	3,252,094	3,255,055
Debt securities issued	**620,875**	**620,891**	795,367	795,356	843,716	843,732
Amounts due to related parties	**1,035,449**	**1,035,813**	1,349,691	1,350,333	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. Concentration of Credit Exposures to Individual counterparties

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

14. 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 cash and demand balances with the central bank, treasury bills and government and local government bonds. The Banking Group holds the following liquid assets in order to manage its liquidity risk:

	Banking Group		
Dollars in Thousands	**Unaudited 31.03.16**	Unaudited 31.03.15	Audited 31.12.15
Cash and demand balances with the central bank	**716,127**	750,075	345,799
Available-for-sale debt securities and treasury bills	**382,771**	390,598	347,506
	1,098,898	1,140,673	693,305

15. Market risk exposures

Aggregate market risk exposures are derived in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) as stated in clauses 2 to 4 of the Ninth Schedule to the Order.

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

	Banking Group	
Dollars in Millions	*Implied risk weighted Exposure*	*Notional capital charge*
Exposure at 31 March 2016 (Unaudited)		
Interest rate risk	**91.13**	**7.29**
Foreign currency risk	**0.13**	**0.01**
Equity risk	**-**	**-**
Peak exposure period 1 January 2016 to 31 March 2016 (Unaudited)		
Interest rate risk	**98.38**	**7.87**
Foreign currency risk	**0.38**	**0.03**
Equity risk	**-**	**-**

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

16. 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 31.03.16**	Unaudited 31.03.15	Audited 31.12.15
Direct credit substitutes	**55,120**	53,624	60,454
Transaction related contingent items	**272,106**	201,764	274,588
Trade related contingent items	**135,122**	138,591	109,684
Commitments, maturity one year or more	**1,185,162**	1,033,172	1,144,938
Commitments, maturity up to one year	**682,499**	743,862	746,441
	2,330,009	2,171,013	2,336,105
Capital commitments			
Contracted expenditure	**-**	-	-

17. Insurance and non-financial activities

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

18. Subsequent events

On 29 April 2016, $53.8million was repatriated from the Branch to Head Office. There were no other 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)*

19. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Audited 12 months ended 31.12.15**	Audited 12 months ended 31.12.14
Profitability		
Net profit after tax	**99,983**	92,177
Net profit after tax over the previous 12 month period, as a percentage of average total assets	**1.4%**	1.4%
Size		
Total assets	**6,953,683**	6,876,746
Percentage increase in total assets over the previous 12 months period	**1.1%**	6.8%
Asset quality		
Individually impaired assets	**16,786**	14,515
Individual impairment provision against advances to customers	**(7,040)**	(6,299)
Collective impairment provision against advances to customers	**(4,489)**	(4,221)
Individually impaired assets / total assets	**0.2%**	0.2%
Individual impairment provision / individually impaired assets	**41.9%**	43.4%

20. Capital adequacy ratios

HBAP Group is subject to the capital requirements as specified by the Hong Kong Monetary Authority (HKMA).

HBAP Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to determine credit risk for its banking book securitisation exposures. For market risk, HBAP Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate exposures, foreign exchange (including gold) exposures and equity exposures. HBAP Group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. HBAP Group uses the standardised (market risk) approach for calculating other market risk positions as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The capital requirements of HKMA are at least equal to those specified under the Basel framework ("Basel III"). HBAP Group exceeds the minimum capital ratio requirements as specified by the HKMA as at 31 December 2015 and 31 December 2014.

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 31.12.15	Unaudited 31.12.14
Basel III Capital Ratios		
Common Equity Tier 1 ("CET1") capital	**15.6%**	14.4%
Tier 1 capital	**16.6%**	14.4%
Total capital	**18.6%**	15.7%

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 three months ended 31 March 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

27 May 2016

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