

**The Hongkong and Shanghai Banking Corporation Limited**  
**New Zealand Banking Group**

**Disclosure Statement**

**30 September 2016**

**HSBC** 

# Disclosure Statement

## For the Nine Months Ended 30 September 2016

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## General Disclosures

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### Registered Bank

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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

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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

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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

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

### Ultimate Holding Company

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

### Access to Parental Disclosures

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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](http://www.hsbc.com/investor-relations/financial-and-regulatory-reports).

### Ranking of Local Creditors in a Winding-up

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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

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

### Government Guarantee

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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)*

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### Other Material Matters

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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

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

### Auditor

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**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

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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

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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

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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)*

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### Board of Directors of HBAP *(continued)*

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**\*\* 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.

**General Disclosures** *(continued)***Board of Directors of HBAP** *(continued)***\*\* 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

**\*\* 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.

**# Kevin Anthony Westley**

Bachelor of Arts, University of London, 1970; Chartered Accountant, Institute of Chartered Accountants in England and Wales, 1973

Company Director

# 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.

Kevin Anthony Westley was appointed as an independent non-executive Director of HBAP on 01 September 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:

	<b>Current Rating</b>	<b>Previous Rating (if changed in the previous two years)</b>	<b>Date of Change</b>
Moody's Investor Service Inc.	Aa2 (stable outlook)	Not changed	-
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch Ratings 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 were no changes in the conditions of registration between 31 December 2015 and 30 September 2016.

Effective 1 October 2016, conditions 8 to 11 of the Conditions of Registration were amended to modify loan-to-value ratio requirements specific to certain geographic and loan purpose characteristics, as published in Appendix 1 of the “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) issued by the Reserve Bank of New Zealand in October 2016.

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## STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

		<i>Banking Group</i>	
		<b>Unaudited 9 months ended</b>	
<i>Dollars in Thousands</i>	Note	<b>30.09.16</b>	30.09.15
Interest income		<b>133,822</b>	171,703
Interest expense		<b>(73,408)</b>	(105,239)
<b>Net interest income</b>		<b>60,414</b>	66,464
Net trading income	2	<b>8,128</b>	15,152
Other net operating income	3	<b>25,253</b>	23,370
<b>Net operating income before loan impairment charges</b>		<b>93,795</b>	104,986
Loan impairment (charges) / releases	4	<b>1,042</b>	8,446
<b>Net operating income</b>		<b>94,837</b>	113,432
Operating expenses		<b>(46,308)</b>	(49,082)
<b>Operating profit before tax</b>		<b>48,529</b>	64,350
Income tax expense		<b>(13,621)</b>	(17,916)
<b>Profit after tax</b>		<b>34,908</b>	46,434
<b>Other comprehensive income / (expense)</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Gains / (losses) on cashflow hedges		<b>(2,226)</b>	(3,781)
Income taxes on cashflow hedges		<b>623</b>	1,059
Gains / (losses) on available-for-sale financial assets		<b>551</b>	702
Income taxes on available-for-sale financial assets		<b>(154)</b>	(196)
<b>Other comprehensive income / (expense) for the period</b>		<b>(1,206)</b>	(2,216)
<b>Total comprehensive income for the period</b>		<b>33,702</b>	44,218

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

## STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

	<i>Banking Group</i>	
	<b>Unaudited</b>	
	<b>9 months ended</b>	
<i>Dollars in Thousands</i>	<b>30.09.16</b>	30.09.15
<b>Head Office Account *</b>		
At beginning of period	<b>53,793</b>	41,739
Repatriation to Head Office	<b>(53,792)</b>	(41,739)
Profit after tax	<b>34,908</b>	46,434
At end of period	<b>34,909</b>	46,434
<b>Cashflow Hedging Reserve</b>		
At beginning of period	<b>(1,595)</b>	103
Fair value changes taken to equity	<b>(3,714)</b>	(3,950)
Transferred to the income statement	<b>1,488</b>	169
Tax on movements and transfers	<b>623</b>	1,059
At end of period	<b>(3,198)</b>	(2,619)
<b>Available for Sale Reserve</b>		
At beginning of period	<b>521</b>	485
Fair value changes taken to equity	<b>3,383</b>	5,818
Transferred to the income statement	<b>(2,832)</b>	(5,116)
Tax on movements and transfers	<b>(154)</b>	(196)
At end of period	<b>918</b>	991
<b>Share-based Payment Reserve</b>		
At beginning of period	<b>1,636</b>	1,622
Transferred to the income statement	<b>91</b>	222
Movement in share-based payment arrangements	<b>(91)</b>	(208)
At end of period	<b>1,636</b>	1,636
<b>Equity at end of period</b>	<b>34,265</b>	46,442
<b>Represented by:</b>		
Profit after tax	<b>34,908</b>	46,434
Other comprehensive income / (expense)	<b>(1,206)</b>	(2,216)
<b>Total comprehensive income for the period</b>	<b>33,702</b>	44,218
Repatriation to Head Office	<b>(53,792)</b>	(41,739)
Movement in share-based payment reserve	<b>-</b>	14
Equity at beginning of period	<b>54,355</b>	43,949
	<b>34,265</b>	46,442

\* 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 SEPTEMBER 2016

<i>Dollars in Thousands</i>	Note	<i>Banking Group</i>		
		<b>Unaudited 30.09.16</b>	Unaudited 30.09.15	Audited 31.12.15
<b>ASSETS</b>				
Cash and demand balances with central banks		<b>533,033</b>	749,840	345,799
Advances to banks		<b>7,167</b>	27,243	7,601
Debt and equity securities		<b>493,856</b>	529,395	447,445
Derivative financial instruments		<b>216,962</b>	412,358	313,918
Advances to customers	6	<b>3,440,901</b>	3,604,491	3,585,997
Amounts due from related parties	5	<b>531,453</b>	842,584	854,687
Other assets		<b>17,803</b>	21,761	18,288
Fixed assets		<b>1,783</b>	1,018	997
Current tax asset		<b>1,378</b>	-	-
Deferred tax asset		<b>1,478</b>	6,115	-
Intangible assets		<b>15,279</b>	16,793	16,356
<b>Total Assets</b>		<b>5,261,093</b>	6,211,598	5,591,088
<b>LIABILITIES</b>				
Deposits by banks		<b>236,004</b>	274,301	185,925
Derivative financial instruments		<b>226,842</b>	410,009	314,362
Customer deposits	8	<b>3,266,776</b>	3,477,224	3,252,094
Debt securities		<b>446,917</b>	909,474	843,716
Amounts due to related parties	5	<b>1,001,696</b>	1,040,255	896,759
Other liabilities		<b>48,593</b>	53,664	36,430
Current tax liability		-	229	6,871
Deferred tax liability		-	-	576
<b>Total Liabilities</b>		<b>5,226,828</b>	6,165,156	5,536,733
<b>Net Assets</b>		<b>34,265</b>	46,442	54,355
<b>EQUITY</b>				
Head Office Account		<b>34,909</b>	46,434	53,793
Cashflow Hedging Reserve		<b>(3,198)</b>	(2,619)	(1,595)
Available for Sale Reserve		<b>918</b>	991	521
Share-based Payment Reserve		<b>1,636</b>	1,636	1,636
<b>Total Equity</b>		<b>34,265</b>	46,442	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 NINE MONTHS ENDED 30 SEPTEMBER 2016

	<i>Banking Group</i>	
	<b>Unaudited 9 months ended</b>	
<i>Dollars in Thousands</i>	<b>30.09.16</b>	30.09.15
<b><i>Cash flows from / (to) operating activities</i></b>		
Interest received	<b>136,492</b>	174,681
Fees and commissions	<b>25,983</b>	23,312
Realised trading gain	<b>12,811</b>	9,801
Interest paid	<b>(74,188)</b>	(94,603)
Operating expenses	<b>(50,556)</b>	(50,176)
Taxation paid	<b>(23,456)</b>	(23,001)
<b>Net cash flows from / (to) operating activities before changes in operating assets and liabilities</b>	<b>27,086</b>	40,014
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	<b>148,294</b>	182,334
Amounts due from related parties	<b>323,249</b>	(475,050)
Other assets	<b>(2,034)</b>	(4,234)
Other liabilities	<b>15,260</b>	10,065
Debt securities issued	<b>(400,766)</b>	159,250
Deposits by banks	<b>49,434</b>	92,468
Customer deposits	<b>14,682</b>	296,290
Amounts due to related parties	<b>111,175</b>	118,632
<b>Net change in operating assets and liabilities</b>	<b>259,294</b>	379,755
Net cash flows from / (to) operating activities	<b>286,380</b>	419,769
<b><i>Cash flows from / (to) investing activities</i></b>		
Debt securities purchased	<b>(408,748)</b>	(535,709)
Debt securities matured	<b>363,400</b>	505,676
Acquisition of fixed assets	<b>(1,083)</b>	(609)
Net cash flows from / (to) investing activities	<b>(46,431)</b>	(30,642)
<b><i>Cash flows from / (to) financing activities</i></b>		
Repatriation to head office	<b>(53,792)</b>	(41,739)
Net cash flows from / (to) financing activities	<b>(53,792)</b>	(41,739)
Net increase / (decrease) in cash and cash equivalents	<b>186,157</b>	347,388
Effect of exchange rate fluctuations on cash held	<b>(2)</b>	3,637
Cash and cash equivalents at beginning of period	<b>352,949</b>	425,367
Cash and cash equivalents at end of period	<b>539,104</b>	776,392

**STATEMENT OF CASH FLOWS** *(continued)*  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

	<i>Banking Group</i>	
	<b>Unaudited 9 months ended</b>	
<i>Dollars in Thousands</i>	<b>30.09.16</b>	30.09.15
<i>Analysis of cash and cash equivalents</i>		
Cash and demand balances with central banks	<b>533,033</b>	<b>749,840</b>
Items in the course of collection from other banks	<b>11</b>	<b>22</b>
Advances to banks – demand	<b>7,156</b>	<b>27,221</b>
Less: items in the course of transmission to other banks	<b>(1,096)</b>	<b>(691)</b>
	<b>539,104</b>	<b>776,392</b>

*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) is wholly owned by HSBC Asia Pacific Holdings (UK) Limited which is wholly owned by HBAP. The unit trusts for which the Company has acted as Manager were closed on 31 October 2014. As a result, the Company 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 “\$” are 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 no change to operating profit before tax.

##### 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.



## Notes to and forming part of the Interim Financial Statements

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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 nine months ended 30 September 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)*

<i>Dollars in Thousands</i>	<b>Banking Group</b>	
	<b>Unaudited</b>	
	<b>9 months ended</b>	
	<b>30.09.16</b>	<b>30.09.15</b>
<b>2. Net trading income</b>		
Foreign exchange gains	<b>8,659</b>	8,446
Revaluation of derivatives	<b>168</b>	2,631
Credit valuation adjustments on derivatives	<b>(216)</b>	1,651
Debit valuation adjustments on derivatives	<b>416</b>	2,243
Loss on termination of hedging instrument in cash flow hedge	<b>(974)</b>	-
Gain/(loss) on hedging instrument in fair value hedge	<b>(2,757)</b>	(4,935)
Gain/(loss) on hedged item on fair value hedge	<b>2,832</b>	5,116
	<b>8,128</b>	15,152
<b>3. Other net operating income</b>		
Fee and commission income	<b>28,403</b>	29,092
Fee and commission expense	<b>(3,163)</b>	(5,515)
Gains/ (losses) on disposal of equipment, fixtures and fittings	<b>13</b>	(207)
	<b>25,253</b>	23,370
<b>4. Loan impairment charges</b>		
Individually assessed impairment (charges) / releases		
New charges	<b>(298)</b>	(201)
Releases	<b>-</b>	9,660
Recoveries	<b>1</b>	1,532
	<b>(297)</b>	10,991
Collectively assessed impairment (charge) / release	<b>1,339</b>	(2,545)
	<b>1,042</b>	8,446

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

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	<b>Unaudited 30.09.16</b>	Unaudited 30.09.15	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.

**Assets**

Amounts due from related parties	<b>531,453</b>	842,584	854,687
Derivative financial instruments – assets	<b>56,130</b>	90,213	105,813
<b>Total related party assets</b>	<b>587,583</b>	932,797	960,500

**Liabilities**

Amounts due to related parties	<b>1,001,696</b>	1,040,255	896,759
Derivative financial instruments – liabilities	<b>161,038</b>	321,501	209,530
<b>Total related party liabilities</b>	<b>1,162,734</b>	1,361,756	1,106,289

**6. Advances to customers**

Overdrafts	<b>116,919</b>	128,841	136,564
Mortgages	<b>1,278,065</b>	1,116,296	1,166,623
Term lending	<b>1,936,303</b>	2,217,347	2,158,963
Non-eligible bills	<b>106,668</b>	138,814	113,192
Money market loans	<b>5,750</b>	20,000	14,500
Total gross advances to customers	<b>3,443,705</b>	3,621,298	3,589,842
Provisions for loan impairment	<b>(2,804)</b>	(16,807)	(3,845)
<b>Total net advances to customers</b>	<b>3,440,901</b>	3,604,491	3,585,997

**7. Additional mortgage information****Residential mortgages by loan-to-valuation ratio**

<i>Dollars in 000's</i>	<i>Banking Group</i>			
	<b>Principal Amount</b>			<b>Total</b>
<b>LVR Range</b>	<b>Does not exceed 80%</b>	<b>Exceeds 80% and not 90%</b>	<b>Exceeds 90%</b>	
<b>30 September 2016 (Unaudited)</b>				
Value of exposures on balance sheet	<b>1,261,670</b>	<b>13,900</b>	<b>2,495</b>	<b>1,278,065</b>
Value of exposures off balance sheet	<b>20,355</b>	-	-	<b>20,355</b>
<b>Total value of exposures</b>	<b>1,282,025</b>	<b>13,900</b>	<b>2,495</b>	<b>1,298,420</b>

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

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	<b>Unaudited 30.09.16</b>	Unaudited 30.09.15	Audited 31.12.15

**8. Customer deposits**

Current accounts	<b>2,076,481</b>	2,043,204	2,034,091
Savings and deposit accounts	<b>1,180,282</b>	1,201,909	1,206,649
Other deposit accounts	<b>10,013</b>	232,111	11,354
<b>Total customer deposits at amortised cost</b>	<b>3,266,776</b>	3,477,224	3,252,094

**9. Additional financial disclosures on the statement of financial position**

Total interest earning and discount bearing assets	<b>4,997,624</b>	5,752,115	5,237,245
Total interest and discount bearing liabilities	<b>4,731,587</b>	5,476,962	4,947,793
Total liabilities net of amounts due to related parties	<b>4,064,094</b>	4,803,400	4,430,444
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligation to derivative counterparties	-	-	-

**10. Asset quality**

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

<b>Gross advances that are at least 90 days past due but not impaired</b>	-	-	-
<b>Gross individually impaired assets</b> <sup>1</sup>	<b>2,794</b>	25,664	3,503
<b>Individual provision for loan impairment</b>			
Balance at the beginning of the period	<b>865</b>	20,720	20,720
New and additional provisions charged to profit or loss	<b>298</b>	201	782
Provisions released during the period to profit or loss	-	(9,660)	(17,932)
Write-offs	-	(1)	(472)
Discount unwind <sup>2</sup>	-	(2,232)	(2,233)
Balance at the end of the period	<b>1,163</b>	9,028	865
<b>Collective provision for loan impairment</b>			
Balance at the beginning of the period	<b>2,980</b>	5,234	5,234
Additional provision charged to profit or loss	<b>153</b>	4,501	4,877
Provisions released during the period to profit or loss	<b>(1,492)</b>	(1,956)	(7,131)
Balance at the end of the period	<b>1,641</b>	7,779	2,980
Total provisions for loan impairment	<b>2,804</b>	16,807	3,845

<sup>1</sup> 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.

<sup>2</sup> 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. 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.

<i>Banking Group</i>						
<b>Unaudited</b>						
<b>9 months ended 30.09.16</b>						
<i>Dollars in Thousands</i>	<b>RBWM</b>	<b>CMB</b>	<b>GBM</b>	<b>Total Reportable Segments</b>	<b>Reconciling items</b>	<b>Consolidated</b>
Net interest income	22,908	29,771	8,157	60,836	(422)	60,414
Net trading income	1,315	2,479	4,369	8,163	(35)	8,128
Other net operating income	(269)	19,125	5,681	24,537	716	25,253
Net operating income before impairment	23,954	51,375	18,207	93,536	259	93,795
Loan impairment (charges) / release	(327)	1,369	-	1,042		1,042
Net operating income	23,627	52,744	18,207	94,578	(259)	94,837
Operating expenses	(16,167)	(21,482)	(8,304)	(45,953)	(355)	(46,308)
Operating profit before tax	7,460	31,262	9,903	48,625	(96)	48,529
Advances to customers	1,303,359	2,137,542	-	3,440,901	-	3,440,901
Customer deposits	1,963,912	1,068,870	232,994	3,266,776	-	3,266,776

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

<i>Banking Group</i>						
Unaudited 9 months ended 30.09.15						
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Net interest income	22,351	31,161	6,702	60,214	6,250	66,464
Net trading income	1,585	2,810	10,787	15,182	(30)	15,152
Other net operating income	254	19,289	4,125	23,668	(298)	23,370
Net operating income before impairment	24,190	53,260	21,614	99,064	5,922	104,986
Loan impairment (charges) / release	(77)	8,523	-	8,446	-	8,446
Net operating income	24,113	61,783	21,614	107,510	5,922	113,432
Operating expenses	(17,027)	(22,777)	(8,987)	(48,791)	(291)	(49,082)
Operating profit before tax	7,086	39,006	12,627	58,719	5,631	64,350
Advances to customers	1,150,739	2,453,572	180	3,604,491	-	3,604,491
Customer deposits	2,178,292	837,010	461,922	3,477,224	-	3,477,224

<i>Banking Group</i>						
Audited 12 months ended 31.12.15						
<i>Dollars in Thousands</i>	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

## 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.

#### Methodologies

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

##### *Cash and demand balances with central banks*

For cash and short - term funds the carrying amount is equivalent to the fair value.

##### *Debt securities issued*

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

##### *Debt securities*

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

##### *Advances to customers, advances to banks, and amounts due from related parties*

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

##### *Deposits, other accounts and amounts due to related parties*

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

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

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

#### Methodologies *(continued)*

##### *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 items carried at fair value

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.

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Unaudited 30.09.16	Unaudited 30.09.16	Unaudited 30.09.16	Unaudited 30.09.16
	Level 1	Level 2	Level 3	TOTAL
<b>ASSETS</b>				
Debt and equity securities	368,823	125,011	22	493,856
Derivatives financial instruments	-	216,962	-	216,962
<b>LIABILITIES</b>				
Derivatives financial instruments	-	226,842	-	226,842

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Unaudited 30.09.15	Unaudited 30.09.15	Unaudited 30.09.15	Unaudited 30.09.15
	Level 1	Level 2	Level 3	TOTAL
<b>ASSETS</b>				
Debt and equity securities	298,506	230,867	22	529,395
Derivatives financial instruments	-	412,358	-	412,358
<b>LIABILITIES</b>				
Derivatives financial instruments	-	410,009	-	410,009

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

There have been no transfers between levels 1 and 2 in the period to 30 September 2016 (September 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.



**Notes to and forming part of the Interim Financial Statements** *(continued)***12. Fair value of financial instruments** *(continued)***Fair value of items 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.

<i>Dollars in Thousands</i>	<b>Banking Group</b>					
	<b>Unaudited 30.09.16</b>	<b>Unaudited 30.09.16</b>	Unaudited 30.09.15	Unaudited 30.09.15	Audited 31.12.15	Audited 31.12.15
	<b>Carrying Value</b>	<b>Fair Value</b>	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>ASSETS</b>						
Advances to customers	<b>3,440,901</b>	<b>3,446,111</b>	3,604,491	3,624,437	3,585,997	3,596,102
<b>LIABILITIES</b>						
Customer deposits	<b>3,266,776</b>	<b>3,268,884</b>	3,477,224	3,480,877	3,252,094	3,255,055
Debt securities issued	<b>446,917</b>	<b>450,375</b>	909,474	909,490	843,716	843,732
Amounts due to related parties	<b>1,001,696</b>	<b>1,007,522</b>	1,040,255	1,040,895	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 periods. These exposures are based on actual credit exposures and 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 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:

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	<b>Unaudited 30.09.16</b>	Unaudited 30.09.15	Audited 31.12.15
Demand balances with the central bank	<b>533,033</b>	749,840	345,799
Available-for-sale debt securities and treasury bills	<b>393,862</b>	429,465	347,506
	<b>926,895</b>	1,179,305	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 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.

<i>Dollars in Millions</i>	<i>Banking Group</i>	
	<i>Implied risk weighted exposure</i>	<i>Notional capital charge</i>
<b><i>End-of-period exposure at 30 September 2016 (Unaudited)</i></b>		
Interest rate risk	<b>91.75</b>	<b>7.34</b>
Foreign currency risk	<b>0.38</b>	<b>0.03</b>
Equity risk	-	-
<b><i>Peak end-of-day exposure period 1 July 2016 to 30 September 2016 (Unaudited)</i></b>		
Interest rate risk	<b>109.38</b>	<b>8.75</b>
Foreign currency risk	<b>0.50</b>	<b>0.04</b>
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.

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	<b>Unaudited 30.09.16</b>	Unaudited 30.09.15	Audited 31.12.15
Direct credit substitutes	<b>61,315</b>	62,954	60,454
Transaction related contingent items	<b>270,982</b>	242,236	274,588
Trade related contingent items	<b>130,096</b>	92,238	109,684
Commitments, maturity one year or more	<b>963,523</b>	1,231,456	1,144,938
Commitments, maturity up to one year	<b>694,768</b>	607,919	746,441
	<b>2,120,684</b>	<b>2,236,803</b>	<b>2,336,105</b>
<b>Capital commitments</b>			
Contracted expenditure	-	63	-

Capital commitments relate to the purchase of equipment.

**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 15 November 2016, \$23,498 thousand 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**

<i>Dollars in HK\$ millions</i>	<b>Unaudited 6 months ended 30.06.16</b>	Unaudited 6 months ended 30.06.15	Audited 12 months ended 31.12.15
<b>Profitability</b>			
Net profit after tax	<b>43,245</b>	59,902	99,983
Net profit after tax over the previous 12 month period as a percentage of average total assets	<b>1.1%<sup>1</sup></b>	1.5% <sup>1</sup>	1.4% <sup>1</sup>
<b>Size</b>			
Total assets	<b>7,404,171</b>	7,167,665	6,953,683
Percentage increase in total assets over the previous 12 month period	<b>3.3%</b>	5.9%	1.1%
<b>Asset quality</b>			
Individually assessed impaired gross loans and advances	<b>19,781</b>	15,323	16,786
Individually assessed impairment allowances	<b>(7,862)</b>	(6,590)	(7,040)
Collectively assessed impairment allowances	<b>(4,868)</b>	(4,247)	(4,489)
Individually assessed impaired gross loans and advances/ total assets	<b>0.3%</b>	0.2%	0.2%
Individually assessed impairment allowances/ Individually assessed impaired gross loans and advances	<b>39.7%</b>	43.0%	41.9%

<sup>1</sup> 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.

**Notes to and forming part of the Interim Financial Statements** *(continued)***20. 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:

	<b>Unaudited</b> <b>30.06.16</b>	Unaudited 30.06.15	Unaudited 31.12.15
<b>Basel III Capital Ratios</b>			
Common Equity Tier 1 (CET1) capital	<b>16.1%</b>	14.3%	15.6%
Tier 1 capital	<b>17.3%</b>	15.3%	16.6%
Total capital	<b>19.2%</b>	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 nine months ended 30 September 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*

25 November 2016

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

HSBC 