

The Hongkong and Shanghai Banking Corporation Limited
New Zealand Banking Group

Disclosure Statement

30 September 2017

HSBC 

Disclosure Statement

For the Nine Months Ended 30 September 2017

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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 1010
New Zealand

New Zealand Banking Group

The New Zealand Banking Group (“Banking Group”) is the New Zealand operations of HBAP and all New Zealand incorporated subsidiaries of HBAP. The entities that have been considered for aggregation to form the Banking Group are detailed in the Notes to and forming part of the Interim Financial Statements, Note 1: Statement of Accounting Policies.

Overseas Banking Group

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

Ultimate Holding Company

The ultimate holding company of HBAP is:

HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom

Access to Parental Disclosures

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

Ranking of Local Creditors in a Winding-up

Under Section 265(1) (db) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of the Hong Kong SAR, as amended in 2010, which HBAP is subject to, in the event of a winding up of HBAP, there shall be paid in priority to all other unsecured debts the aggregate amount held on deposit, up to a maximum of HKD 500,000, to each depositor and this Section has no geographic limitation. No other material legislative or regulatory restrictions in Hong Kong SAR exist which would subordinate the claims of any class of New Zealand branch unsecured creditors on the assets of HBAP to those of any other class of unsecured creditors of HBAP in a winding up of HBAP.

Guarantee Arrangements

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

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.

Auditor

New Zealand Banking Group
PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland 1010
New Zealand

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

New Zealand Chief Executive Officer/Responsible Person

The New Zealand Chief Executive Officer, Christopher David Gosse Russell, has been authorised in writing by each Director named below, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this Disclosure Statement on the Directors' behalf. Accordingly, Christopher David Gosse Russell is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Christopher David Gosse Russell

Chief Executive Officer New Zealand Branch. Joined the HSBC Group in 2005 and resides in New Zealand. He has a Master of Business Administration from the University of South Australia.

Communications addressed to the responsible person may be sent to:
c/o The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch
PO Box 5947
Wellesley Street
Auckland 1141
New Zealand

Dealings with Responsible Person

No dealings with any responsible person or director, the immediate relative or professional associate of a responsible person or director, have been entered into by HBAP and the Banking Group other than those given in the ordinary course of business.

Board of Directors of HBAP

The Directors of HBAP at the time this Disclosure Statement was signed are:

***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 May Lung Cha, GBS (Deputy Chairman)

Bachelor of Arts, University of Wisconsin-Madison, 1972; Juris Doctor, University of Santa Clara Law School, 1982; and admitted to practice in the State of California and in Federal Courts, 1983
Company Director

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

**** Zia Mody** (Deputy Chairman)

Bachelor of Arts (Law), Cambridge University, 1978; Master of Laws, Harvard University, 1979
Partner, AZB & Partners

**** Graham John Bradley**

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

Louisa Wai Wan Cheang

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

Dr Christopher Wai Chee Cheng, GBS, OBE

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

Dr Raymond Kuo Fung Ch'ien, GBS, CBE

Bachelor of Arts, Rockford College, 1973; Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania, 1976 and 1978
Independent Non-executive Chairman, Hang Seng Bank Limited

Yiu Kwan Choi

Higher Certificate in Accountancy, Hong Kong Polytechnic University, 1976
Company Director

Irene Yun-lien Lee

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

**** Jennifer Xinzhe Li**

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

Victor Tzar Kuoi Li (Non-executive Director)

B.Sc. and M.Sc., Stanford University, 1986
Managing Director and Deputy Chairman of CK Asset Holdings Limited
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

Kevin Anthony Westley

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

Marjorie Mun Tak Yang, GBS

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

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

** Tan Sri Dr Francis Sock Ping Yeoh, CBE

Bachelor of Science (Hons.) in Civil Engineering, University of Kingston, UK, 1978; Honorary Doctorate of Engineering from University of Kingston, 2004

Managing Director, YTL Corporation Berhad

independent non-executive Director

Country of Residence

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

Dr Rosanna Yick-Ming Wong retired as an independent non-executive Director of HBAP on 24 April 2017.

Rose Wai Mun Lee resigned as an executive Director of HBAP on 1 July 2017.

Louisa Wai Wan Cheang has been appointed as a Director with effect from 14 September 2017.

Yiu Kuan Choi has been appointed as an independent non-executive Director with effect from 3 October 2017.

There have been no other changes in the composition of the Board of Directors since 31 December 2016.

Directors' Policy on Conflicts of Interests

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

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

Directors' Interests in Contracts

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

Credit Rating

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

	Current Rating	Previous Rating (if changed in the previous two years)	Date of Change
Moody's Investor Service Inc.	Aa3 (stable outlook)	Aa2 (negative outlook)	27 September 2017
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (stable outlook)	Not changed	-

Conditions of Registration

Conditions of registration for The Hongkong and Shanghai Banking Corporation Limited in New Zealand

These conditions of registration apply on and after 1 October 2016.

The registration of The Hongkong and Shanghai Banking Corporation Limited (“the registered bank”) in New Zealand is subject to the following conditions:

1. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of “material” is based on generally accepted accounting practice.

2. That the banking group’s insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group’s insurance business is the sum of the following amounts for entities in the banking group:

- (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
- (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity’s insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group’s insurance business –

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration, –

“insurance business” means the undertaking or assumption of liability as an insurer under a contract of insurance:

“insurer” and “contract of insurance” have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.
4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:
 - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.

Conditions of Registration *(continued)*

5. That The Hongkong and Shanghai Banking Corporation Limited complies with the requirements imposed on it by the Hong Kong Monetary Authority.
6. That, with reference to the following table, each capital adequacy ratio of The Hongkong and Shanghai Banking Corporation Limited must be equal to or greater than the applicable minimum requirement.

Capital adequacy ratio	Minimum requirement on and after 1 January 2015
Common Equity Tier 1 capital	4.5 %
Tier 1 capital	6 %
Total capital	8 %

For the purposes of this condition of registration, the capital adequacy ratios –

- (a) must be calculated as a percentage of the registered bank's risk weighted assets; and
 - (b) are otherwise as administered by the Hong Kong Monetary Authority.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ\$15 billion.
 8. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
 9. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
 10. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

Conditions of Registration *(continued)*

In these conditions of registration, –

“banking group” means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group’s New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

“business of the registered bank in New Zealand” means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

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

“liabilities of the registered bank in New Zealand” means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied.

In conditions of registration 8 to 10,—

“loan-to-valuation ratio”, “non property-investment residential mortgage loans”, property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending ” (BS19) dated October 2016, and where the version of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.

“loan-to-valuation measurement period” means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2017.

Changes to Conditions of Registration since the 30 June 2017 Disclosure Statement

There were no changes in the conditions of registration between 30 June 2017 and 30 September 2017.

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STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

		<i>Banking Group</i>	
		Unaudited 9 months ended	
<i>Dollars in Thousands</i>	Note	30.09.17	30.09.16
Interest income		121,400	133,822
Interest expense		(56,939)	(73,408)
Net interest income		64,461	60,414
Net trading income	2	4,230	8,128
Other net operating income	3	26,791	25,253
Net operating income before loan impairment charges		95,482	93,795
Loan impairment (charges) / releases	4	346	1,042
Net operating income		95,828	94,837
Operating expenses		(45,438)	(46,308)
Operating profit before tax		50,390	48,529
Income tax expense		(14,144)	(13,621)
Profit after tax		36,246	34,908
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Cashflow hedges		-	(2,226)
Income taxes on cashflow hedges		-	623
Available-for-sale financial assets		397	551
Income taxes on available-for-sale financial assets		(55)	(154)
Other comprehensive income / (expense) for the period		342	(1,206)
Total comprehensive income for the period		36,588	33,702

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 2017

	Banking Group Unaudited 9 months ended	
<i>Dollars in Thousands</i>	30.09.17	30.09.16
Head Office Account *		
At beginning of period	22,811	53,793
Repatriation to Head Office	(22,810)	(53,792)
Profit after tax	36,246	34,908
At end of period	<u>36,247</u>	<u>34,909</u>
Cashflow Hedging Reserve		
At beginning of period	-	(1,595)
Fair value changes taken to equity	-	(3,714)
Transferred to the income statement	-	1,488
Tax on movements and transfers	-	623
At end of period	<u>-</u>	<u>(3,198)</u>
Available-for-Sale Reserve		
At beginning of period	623	521
Fair value changes taken to equity	668	3,383
Transferred to the income statement	(271)	(2,832)
Tax on movements and transfers	(55)	(154)
At end of period	<u>965</u>	<u>918</u>
Share-based Payment Reserve		
At beginning of period	1,636	1,636
Transferred to the income statement	96	91
Movement in share-based payment arrangements	(131)	(91)
At end of period	<u>1,601</u>	<u>1,636</u>
Equity at end of period	<u>38,813</u>	<u>34,265</u>
Represented by:		
Profit after tax	36,246	34,908
Other comprehensive income / (expense)	342	(1,206)
Total comprehensive income for the period	<u>36,588</u>	33,702
Repatriation to Head Office	(22,810)	(53,792)
Movement in other reserve	(38)	-
Equity at beginning of period	<u>25,073</u>	54,355
	<u>38,813</u>	<u>34,265</u>

* 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 2017

<i>Dollars in Thousands</i>	Note	<i>Banking Group</i>		
		Unaudited 30.09.17	Unaudited 30.09.16	Audited 31.12.16
ASSETS				
Cash and demand balances with central banks		533,982	533,033	597,763
Advances to banks		8,574	7,167	8,504
Debt and equity securities		302,351	493,856	486,972
Derivative financial instruments	13	45,803	216,962	161,666
Advances to customers	5	4,118,997	3,440,901	3,446,783
Amounts due from related parties	9	564,484	531,453	345,903
Other assets		23,917	17,803	21,725
Property, Plant and Equipment		1,471	1,783	1,681
Current tax asset		1,333	1,378	-
Deferred taxation		-	1,478	-
Goodwill and Intangible assets		14,407	15,279	15,024
Total Assets		5,615,319	5,264,093	5,086,021
LIABILITIES				
Deposits by banks		171,741	236,004	232,174
Derivative financial instruments	13	47,126	226,842	164,101
Customer deposits	10	3,020,287	3,266,776	3,118,202
Debt securities		264,832	446,917	331,267
Amounts due to related parties	9	2,022,471	1,001,696	1,173,161
Other liabilities		48,906	48,593	39,233
Current tax liabilities		-	-	2,726
Deferred tax liability		1,143	-	84
Total Liabilities		5,576,506	5,226,828	5,060,948
Net Assets		38,813	34,265	25,073
EQUITY				
Head Office Account		36,247	34,909	22,811
Cashflow Hedging Reserve		-	(3,198)	-
Available for Sale Reserve		965	918	623
Other Reserve		1,601	1,636	1,639
Total Equity		38,813	34,265	25,073

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 2017

	<i>Banking Group</i>	
	Unaudited 9 months ended	
<i>Dollars in Thousands</i>	30.09.17	30.09.16
<i>Cash flows from / (to) operating activities</i>		
Interest received	123,882	136,492
Fees and commissions	27,123	25,983
Realised trading gain / (loss)	2,977	12,811
Interest paid	(58,309)	(74,188)
Operating expenses	(49,282)	(50,556)
Taxation paid	(17,211)	(23,456)
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	29,180	27,086
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	(672,219)	148,294
Amounts due from related parties	(218,569)	323,249
Other assets	13,479	(2,034)
Other liabilities	(244)	15,260
Debt securities issued / (redeemed)	(66,943)	(400,766)
Deposits by banks	(64,229)	49,434
Customer deposits	(97,915)	14,682
Amounts due to related parties	851,587	111,175
Net change in operating assets and liabilities	(255,053)	259,294
Net cash flows from / (to) operating activities	(225,873)	286,380
<i>Cash flows to investing activities</i>		
Debt and equity securities matured	144,910	363,400
Debt and equity securities (purchased)	(36,493)	(408,748)
Acquisition of fixed assets	(191)	(1,083)
Proceeds from sale of fixed assets	-	-
Net cash flows to investing activities	181,212	(46,431)
<i>Cash flows from / (to) financing activities</i>		
Repatriation to head office	(22,810)	(53,792)
Net cash flows from / (to) financing activities	-	(53,792)
Net increase / (decrease) in cash and cash equivalents	(67,472)	186,157
Effect of exchange rate fluctuations on cash held	(35)	(2)
Cash and cash equivalents at beginning of period	605,403	352,949
Cash and cash equivalents at end of period	537,896	539,104

STATEMENT OF CASH FLOWS *(continued)*
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

	<i>Banking Group</i>	
	Unaudited 9 months ended	
<i>Dollars in Thousands</i>	30.09.17	30.09.16
<i>Analysis of cash and cash equivalents</i>		
Cash and demand balances with central banks	533,978	533,033
Items in the course of collection from other banks ¹	4	11
Advances to banks – demand	8,574	7,156
Less: items in the course of transmission to other banks ¹	(4,660)	(1,096)
	537,896	539,104

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 2016. 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 2016.

Comparative Figures

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

On 1 January 2017, the Banking Group changed reporting segments following a management decision to realign certain functions. Further information on this change is available in Note 12: Segment Reporting.

Comparative data has been re-presented to conform to current year presentation.

Risk Management

There were no material changes to the Banking Group's policies for managing risks in relation to credit, currency, interest rates, equity, liquidity or any material business risk to which the Banking Group is exposed during the nine months ended 30 September 2017.

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

<i>Dollars in Thousands</i>	Banking Group	
	Unaudited	
	9 months ended	
	30.09.17	30.09.16

2. Net trading income

Foreign exchange gains	1,732	8,659
Gains / (losses) on revaluation of derivatives	2,172	168
Credit valuation adjustments on derivatives	4,474	(216)
Debit valuation adjustments on derivatives	(3,966)	416
Loss on termination of hedging instrument in cash flow hedge	-	(974)
Gains/ (losses) on hedging instrument in fair value hedge	(638)	(2,757)
Gains/ (losses) on hedged item on fair value hedge	456	2,832
	4,230	8,128

3. Other net operating income

Fee and commission income	28,765	28,403
Fee and commission expense	(1,974)	(3,163)
Gains/ (losses) on disposal of equipment, fixtures and fittings	-	13
	26,791	25,253

4. Loan impairment charges

Individually assessed impairment (charges) / releases		
New charges	-	(298)
Releases	305	-
Recoveries	5	1
	310	(297)
Collectively assessed impairment (charge) / release	36	1,339
	346	1,042

5. Advances to customers

<i>Dollars in Thousands</i>	Banking Group		
	Unaudited	Unaudited	Audited
	30.09.17	30.09.16	31.12.16
Overdrafts	128,589	116,919	93,464
Mortgages	1,554,529	1,278,065	1,320,910
Term Lending	2,289,249	1,936,303	1,865,011
Non-eligible bills	128,706	106,668	159,815
Money market loans	20,000	5,750	10,000
Total gross advances to customers	4,121,073	3,443,705	3,449,200
Provision for loan impairment	(2,076)	(2,804)	(2,417)
Total net advances to customers	4,118,997	3,440,901	3,446,783

Notes to and forming part of the Interim Financial Statements (continued)**6. Asset quality**

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	Unaudited 30.09.17	Unaudited 30.09.16	Audited 31.12.16
In the current and prior period, there is only one class of impaired financial assets, being advances to customers.			
Gross individually impaired assets ¹	3,807	2,794	2,833
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	1,148	865	865
New and additional provisions charged to profit or loss	-	298	298
Provisions released during the period to profit or loss	(305)	-	(15)
Write-offs	-	-	-
Discount unwind ²	-	-	-
Balance at the end of the period	843	1,163	1,148
Collective provision for loan impairment			
Balance at the beginning of the period	1,269	2,980	2,980
Charges / (releases) during the year to profit or loss	(36)	(1,339)	(1,711)
Balance at the end of the period	1,233	1,641	1,269
Total provisions for loan impairment	2,076	2,804	2,417

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.

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

<i>Dollars in Thousands</i>	<i>Banking Group</i>			
	Unaudited Principal Amount			Total
LVR Range	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
30 September 2017				
Value of exposures on balance sheet	1,544,708	7,693	2,128	1,554,529
Value of exposures off balance sheet	190,463	68	14	190,545
Total value of exposures	1,735,171	7,761	2,142	1,745,074

LVR ratios and exposure values are reported using the total loan exposure including both drawn balances and all available commitments.

Notes to and forming part of the Interim Financial Statements *(continued)***8. 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.

9. 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.

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	Unaudited 30.09.17	Unaudited 30.09.16	Audited 31.12.16
Assets			
Amounts due from related parties	564,484	531,453	345,903
Derivative financial instruments – assets	35,051	56,130	44,720
Total related party assets	599,535	587,583	390,623
Liabilities			
Amounts due to related parties	2,022,471	1,001,696	1,173,161
Derivative financial instruments – liabilities	19,940	161,038	119,681
Total related party liabilities	2,042,411	1,162,734	1,292,842

10. Customer Deposits

Current accounts	1,985,004	2,076,481	1,961,281
Savings and deposit accounts	1,027,787	1,180,282	1,148,129
Other deposit accounts	7,496	10,013	8,792
Total customer deposits at amortised cost	3,020,287	3,266,776	3,118,202

11. Additional financial disclosures on the statement of financial position

Total interest earning and discount bearing assets	5,526,349	4,997,624	4,866,790
Total interest and discount bearing liabilities	5,266,036	4,731,587	4,632,795
Total liabilities net of amounts due to related parties	3,534,095	4,064,094	3,768,106
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)***12. Segment reporting**

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

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

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

Business Segments

The Banking Group comprises the following main business segments:

- *Retail Banking and Wealth Management (RBWM)*
Includes loans, deposits and other transactions with retail customers.
- *Commercial Banking (CMB)*
Manages the relationships with corporate customers providing loans, deposits and other transactions including trade finance and payment cash management.
- *Global Banking and Markets (GBM)*
Manages the relationships with institutional customers and undertakes the Banking Group's investment banking operations.
- *Corporate Centre*
Includes Balance Sheet Management, the results of our financing operations and central support costs with associated recoveries.

Banking Group Unaudited 9 months ended 30.09.17					
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	25,873	26,016	4,511	8,061	64,461
Net trading income	1,132	2,060	968	70	4,230
Other net operating income	558	17,420	7,560	1,253	26,791
Net operating income before loan impairment	27,563	45,496	13,039	9,384	95,482
Loan impairment (charges) / release	309	37	-	-	346
Net operating income	27,872	45,533	13,039	9,384	95,828
Operating expense	(17,000)	(21,259)	(6,389)	(790)	(45,438)
Operating profit before tax	10,872	24,274	6,650	8,594	50,390
Advances to customers	1,582,894	2,536,103	-	-	4,118,997
Customer deposits	1,797,030	1,040,010	183,247	-	3,020,287

Notes to and forming part of the Interim Financial Statements *(continued)***12. Segment reporting** *(continued)*

<i>Banking Group</i> Unaudited 9 months ended 30.09.16					
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	22,908	29,771	(427)	1,732	60,414
Net trading income	1,315	2,479	6,292	38	8,128
Other net operating income	(269)	19,125	1,617	220	25,253
Net operating income before loan impairment	23,954	51,375	7,482	1,990	93,795
Loan impairment (charges) / release	(327)	1,369	-	-	1,042
Net operating income	23,627	52,744	7,482	1,990	94,837
Operating expense	(16,167)	(21,482)	(2,110)	(523)	(46,308)
Operating profit before tax	7,460	31,262	5,372	1,467	48,529
Advances to customers	1,303,359	2,137,542	-	-	3,440,901
Customer deposits	1,963,912	1,079,883	222,981	-	3,266,776

13. 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)***13. 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.

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Unaudited 30.09.17 Level 1	Unaudited 30.09.17 Level 2	Unaudited 30.09.17 Level 3	Unaudited 30.09.17 TOTAL
ASSETS				
Debt and equity securities	302,329	-	22	302,351
Derivatives financial instruments	-	45,803	-	45,803
LIABILITIES				
Derivatives financial instruments	-	47,126	-	47,126

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

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Audited 31.12.16 Level 1	Audited 31.12.16 Level 2	Audited 31.12.16 Level 3	Audited 31.12.16 TOTAL
ASSETS				
Debt and equity securities	361,951	124,999	22	486,972
Derivatives financial instruments	-	161,666	-	161,666
LIABILITIES				
Derivatives financial instruments	-	164,101	-	164,101

There have been no transfers between levels 1 and 2 in the period to 30 September 2017 (September 2016: none; December 2016: 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)***13. 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.

<i>Dollars in Thousands</i>	Banking Group					
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	30.09.17	30.09.17	30.09.16	30.09.16	31.12.16	31.12.16
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
ASSETS						
Advances to customers	4,118,997	4,115,247	3,440,901	3,446,111	3,446,783	3,447,448
LIABILITIES						
Customer deposits	3,020,287	3,020,482	3,266,776	3,268,884	3,118,202	3,119,818
Debt securities issued	264,832	265,392	446,917	450,375	331,267	331,381
Amounts due to related parties	2,022,471	2,025,433	1,001,696	1,007,522	1,173,161	1,174,254

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)***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:

<i>Dollars in Thousands</i>	Banking Group		
	Unaudited 30.09.17	Unaudited 30.09.16	Audited 31.12.16
Cash and demand balances with the central bank	533,982	533,033	597,763
Available-for-sale debt securities and treasury bills	302,329	393,862	486,950
	836,311	926,895	1,084,713

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.

<i>Dollars in Millions</i>	Banking Group	
	<i>Implied risk weighted Exposure</i>	<i>Notional capital charge</i>
Exposure at 30 September 2017 (Unaudited)		
Interest rate risk	142.63	11.41
Foreign currency risk	0.13	0.01
Equity risk	-	-
Peak exposure period 1 January 2017 to 30 September 2017 (Unaudited)		
Interest rate risk	142.63	11.41
Foreign currency risk	1.75	0.14
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>		
	Unaudited 30.09.17	Unaudited 30.09.16	Audited 31.12.16
Direct credit substitutes	136,976	61,315	56,550
Transaction related contingent items	305,814	270,982	288,453
Trade related contingent items	95,813	130,096	303,619
Commitments, maturity one year or more	1,435,379	963,523	1,136,423
Commitments, maturity up to one year	642,623	694,768	664,970
	2,616,605	2,120,684	2,450,015
Capital commitments			
Contracted expenditure	-	63	-

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 10 November 2017, \$24.4 million 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>	Unaudited 6 months ended 30.06.17	Unaudited 6 months ended 30.06.16	Audited 12 months ended 31.12.16
Profitability			
Net profit after tax	47,175	43,245	84,795
Net profit after tax over the previous 12 month period as a percentage of average total assets	1.2%¹	1.1% ¹	1.2% ¹
Size			
Total assets	7,674,515	7,404,171	7,548,952
Percentage increase in total assets over the previous 12 month period	3.7%	3.3%	8.6%
Asset quality			
Individually impaired assets	18,411	19,781	17,539
Individual impairment provision against advances to customers	(9,397)	(7,862)	(8,059)
Collective impairment provision against advances to customers	(5,162)	(4,868)	(4,633)
Individually impaired assets / total assets	0.2%	0.3%	0.2%
Individual impairment provision / individually impaired assets	51.0%	39.7%	45.9%

1. Average total assets for HBAP Group is not publicly available. This calculation uses a two-point average of total assets as at the end of the reported period and the comparative period ended 12 months earlier.

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.

The capital adequacy disclosure made by the HBAP Group can be found in the Annual Report and Accounts at this website, <http://www.hsbc.com/investor-relations/financial-and-regulatory-reports>.

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

	Unaudited 30.06.17	Unaudited 30.06.16	Unaudited 31.12.16
Basel III Capital Ratios			
Common Equity Tier 1 (CET1) capital	15.2%	16.1%	16.0%
Tier 1 capital	16.3%	17.3%	17.2%
Total capital	18.4%	19.2%	19.0%

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 2017.

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

24 November 2017

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

HSBC 