

# **The Hongkong and Shanghai Banking Corporation Limited**

**New Zealand Banking Group**

*Disclosure Statement*

**30 September 2011**

**HSBC** 

**The world's local bank**

## **Disclosure Statement For the Nine Months Ended 30 September 2011**

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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 and controlled special purpose entities. The entities that have been considered for aggregation to form the Banking Group are detailed in the 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 subsidiary 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 can be found at HBAP’s website, [www.hsbc.com.hk](http://www.hsbc.com.hk) under About HSBC, Financial Information, Financial 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 HKD100,000, to each depositor and that this Section has no geographic limitation. Save as aforesaid, the Directors believe that no other material legislative or regulatory restrictions exist which subordinate the claims of any class of the Branch’s unsecured creditors on the global 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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The Branch does not have a guarantee under the New Zealand retail deposit guarantee scheme as at the date of signing this Disclosure Statement.

## General Disclosures *(continued)*

### Other Material Matters

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There are no material matters that, if disclosed, would adversely effect 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.

### Auditors

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#### New Zealand Banking Group

KPMG  
KPMG Centre  
18 Viaduct Harbour Avenue  
Auckland  
New Zealand

#### Overseas Banking Group

KPMG  
8th 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, Noel Gerard McNamara, 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, Noel Gerard McNamara is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 3) 2011.

#### Noel Gerard McNamara

Chief Executive Officer New Zealand Branch. Joined the HSBC Group in 1995 and resides in New Zealand.

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  
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

#### Dr William Fung Kwok Lun, SBS, OBE (Non-Executive Deputy Chairman)

BSE, Princeton University, 1970 and MBA, Harvard Graduate School of Business, 1972  
Honorary Doctorate of Business Administration, Hong Kong University of Science & Technology, 1999  
Executive Deputy Chairman, Li & Fung Limited

#### Laura Cha May Lung, GBS (Non-Executive Deputy Chairman)

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

## General Disclosures *(continued)*

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

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**Peter Wong Tung Shun** (Chief Executive)

Bachelor of Arts, Indiana University, 1974; Master of Business Administration, Indiana University, 1976

Master of Science, Indiana University, 1978

Executive Director, Hong Kong and Mainland China, The Hongkong and Shanghai Banking Corporation Limited

**Dr Raymond Ch'ien Kuo Fung**, GBS, CBE

B.A., Rockford College, 1973; Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania, 1976 and 1978

Non-Executive Chairman of MTR Corporation Limited

**\* Naina Lal Kidwai**

Bachelor of Arts degree (Honours Course) in Economics, Delhi University, examined in 1977, certificate awarded 4

March 1978; Masters in Business Administration, Harvard University, 1982

Group General Manager and Country Head, HSBC India

**Margaret Leung Ko May Yee**

Bachelor of Social Sciences, University of Hong Kong, 1975

Vice-Chairman and Chief Executive, Hang Seng Bank Limited

**Victor Li Tzar Kuoi**

B.Sc. and M.Sc., Stanford University, 1986

Managing Director and Deputy Chairman, Cheung Kong (Holdings) Limited

**Dr Lo Ka Shui**, GBS

B.Sc. (Hons) Biophysics, McGill University, 1970; M.D. Cornell University, 1974; Residency, American Board of

Internal Medicine, University of Michigan, 1976; and Fellowship, American Board of Cardiology,

University of Michigan, 1979

Chairman and Managing Director, Great Eagle Holdings Limited

**\* Zia Mody**

Master of Laws, Harvard University, 1979; Bachelor of Arts (Law), Cambridge University, 1978

Partner, AZB & Partners

**Christopher Dale Pratt**

M A Modern History, Oxford University, 1978

Chairman, John Swire & Sons (H.K.) Limited

**\*Andreas Sohmen-Pao**

First Class Honors Degree in Oriental Studies, Oxford University, 1994; Master in Business Administration with

distinction, Harvard University Graduate School of Business, 1997; Master of Arts, Oxford University, 2000

Chief Executive Officer, BW Maritime Pte Ltd

**Thomas Brian Stevenson**, SBS

Bachelor of Laws, Glasgow University, Scotland, 1965; Master of Laws, University of Hong Kong, 2001; Member,

Institute of Chartered Accountants of Scotland, 1968; Fellow, Hong Kong Institute of Certified Public Accountants; and

Member, Certified Public Accountants of Singapore.

Chartered Accountant

**Paul Anthony Thurston**

Bachelor of Arts, Economics and Business Studies, University of Sheffield, 1975; Associate Member, Chartered

Institute of Bankers, 1979; and Fellow, Ifs School of Finance, 2009

Group Managing Director and Chief Executive, Retail Banking and Wealth Management, HSBC Holdings plc

**Dr Patrick Wang Shui Chung**

B.Sc. and M.Sc., in Electrical Engineering, Purdue University, Indiana USA, 1972.

Honorary Doctorate of Engineering, Purdue University in Indiana, USA, 2004.

Chairman and Chief Executive Officer, Johnson Electric Holdings Limited

## General Disclosures *(continued)*

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

#### **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**

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

Chairman, Esquel Holdings Inc.

#### **Country of Residence**

With the exception of those denoted with an \*, all directors reside in Hong Kong. Zia Mody and Naina Lal Kidwai reside in India, and Andreas Sohmen-Pao resides in Singapore.

Communications addressed to the Directors may be sent to:  
 c/o The Hongkong and Shanghai Banking Corporation Limited  
 GPO Box 64  
 Hong Kong

### **Change in Board of Directors for HBAP**

The composition of the Board of Directors has changed since 31 December 2010.

Mr David Wei Zhe resigned as a non-executive director of HBAP with effect from 22 February 2011. Mr Paul Anthony Thurston was appointed as a director of HBAP with effect from 27 April 2011.

### **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>
Moody's Investor Service Inc.	Aa1 (stable outlook)
Standard & Poor's Corporation	AA (stable outlook)
Fitch IBCA Inc.	AA (stable outlook)

## 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 30 September 2011.

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 practices; 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.

## Conditions of Registration *(continued)*

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.
  
5. That The Hongkong and Shanghai Banking Corporation Limited complies with the requirements imposed on it by the Hong Kong Monetary Authority.
  
6. That The Hongkong and Shanghai Banking Corporation Limited complies with the following minimum capital adequacy requirements, as administered by the Hong Kong Monetary Authority:
  - (a) tier one capital of The Hongkong and Shanghai Banking Corporation Limited is not less than 4 percent of risk weighted exposures; and
  - (b) capital of The Hongkong and Shanghai Banking Corporation Limited is not less than 8 percent of risk weighted exposures.
  
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.

In these conditions of registration, –

“banking group” means the New Zealand business of the registered bank and its subsidiaries as required to be reporting in group financial statements for the group’s New Zealand business under section 9(2) of the Financial Reporting Act 1993:

“business of the registered bank in New Zealand” means the New Zealand business of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993:

“generally accepted accounting practice” has the same meaning as in section 2 of the Financial Reporting Act 1993:

“liabilities of the registered bank in New Zealand” means the liabilities of the registered bank as required to be reported in the financial statements under section 8(2) of the Financial Reporting Act 1993.

### **Changes to Conditions of Registration between 1 July 2011 and 30 September 2011**

Changes have been made to the Conditions of Registration which became effective on 1 July 2011. The changes add definitions to the terminology used in the Conditions of Registration by making reference to the applicable financial reporting standards.

Further changes have been made to the Conditions of Registration which became effective on 30 September 2011. The changes relate to an additional definition of “generally accepted accounting practice” and minor changes to the condition limiting insurance business and to the condition limiting non-financial activities.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

<i>Dollars in Thousands</i>	Note	Unaudited Nine months ended	
		30.09.11	30.09.10
Interest income		150,375	161,417
Interest expense		(87,530)	(93,782)
<b>Net interest income</b>		<b>62,845</b>	67,635
Net trading income		9,718	9,350
Other net operating income	2	35,192	28,384
<b>Operating income</b>		<b>107,755</b>	105,369
Operating expenses		(46,666)	(42,434)
<b>Operating profit before provisions and tax</b>		<b>61,089</b>	62,935
Provisions for loan impairment	7	(1,186)	(6,498)
<b>Operating profit before tax</b>		<b>59,903</b>	56,437
Income tax expense		(16,871)	(17,442)
<b>Profit after tax</b>		<b>43,032</b>	38,995
<b>Other comprehensive income</b>			
Cashflow hedges		1,806	(5,153)
Income tax expense on cashflow hedge		(850)	1,535
Available-for-sale financial assets		(85)	319
Income tax expense on available-for-sale financial assets		33	(92)
<b>Other comprehensive income for the period</b>		<b>904</b>	(3,391)
<b>Total comprehensive income for the period</b>		<b>43,936</b>	35,604

*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 2011

	Unaudited Nine months ended	Unaudited Nine months ended
<i>Dollars in Thousands</i>	30.09.11	30.09.10
<b>Head Office Account *</b>		
At beginning of period	28,184	24,607
Repatriation to Head Office	(52,189)	(52,612)
Profit after tax	43,032	38,995
At end of period	<u>19,027</u>	<u>10,990</u>
<b>Cashflow Hedging Reserve</b>		
At beginning of period	(1,909)	1,076
Movement in the fair value of derivatives	1,756	(4,065)
Amortisation of previously terminated swaps to profit or loss	50	(1,088)
Tax on movements and transfers	(850)	1,535
At end of period	<u>(953)</u>	<u>(2,542)</u>
<b>Available for Sale Reserve</b>		
At beginning of period	36	(263)
Movement in the fair value of debt and equity securities	(125)	284
Tax on movements and transfers	33	(92)
Transfers to profit or loss on disposal of equity securities	40	35
At end of period	<u>(16)</u>	<u>(36)</u>
<b>Other Reserve</b>		
At beginning of period	1,598	1,261
Amortisation of share options granted	325	269
Movement in respect of share-based payment arrangements	(65)	(9)
At end of period	<u>1,858</u>	<u>1,521</u>
<b>Equity at end of period</b>	<u>19,916</u>	<u>9,933</u>
<b>Represented by:</b>		
Profit after tax	43,032	38,995
Other comprehensive income	904	(3,391)
<b>Total comprehensive income for the period</b>	<u>43,936</u>	<u>35,604</u>
Repatriation to Head Office	(52,189)	(52,612)
Movement in other reserve	260	260
Equity at beginning of period	<u>27,909</u>	<u>26,681</u>
	<u>19,916</u>	<u>9,933</u>

\* The Head Office account is interest free, repayable at the discretion of the Branch and subordinate 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 2011

<i>Dollars in Thousands</i>	Note	<b>Unaudited 30.09.11</b>	Unaudited 30.09.10	Audited 31.12.10
<b>ASSETS</b>				
Cash and demand balances with central banks		<b>356,151</b>	516,768	783,962
Advances to banks		<b>19,683</b>	22,019	1,235
Debt and equity securities		<b>561,223</b>	538,661	665,404
Derivative financial instruments	3	<b>214,645</b>	180,447	182,921
Advances to customers		<b>3,214,224</b>	3,030,757	3,126,984
Amounts due from related parties	3	<b>514,897</b>	263,187	212,951
Other assets		<b>17,593</b>	15,339	17,208
Current taxation		-	5,427	1,380
Deferred taxation		<b>7,571</b>	5,520	6,425
Intangible assets		<b>22,802</b>	19,534	20,173
Fixed assets		<b>1,820</b>	1,832	2,256
<b>Total Assets</b>		<b><u>4,930,609</u></b>	<u>4,599,491</u>	<u>5,020,899</u>
<b>LIABILITIES</b>				
Deposits by banks		<b>198,506</b>	105,212	164,321
Derivative financial instruments	3	<b>209,683</b>	187,599	215,519
Customer deposits		<b>2,823,662</b>	2,469,124	2,427,178
Debt securities		<b>640,776</b>	659,130	719,269
Amounts due to related parties	3	<b>991,335</b>	1,134,327	1,431,776
Other liabilities		<b>43,528</b>	34,166	34,927
Current taxation		<b>3,203</b>	-	-
<b>Total Liabilities</b>		<b><u>4,910,693</u></b>	<u>4,589,558</u>	<u>4,992,990</u>
<b>Net Assets</b>		<b><u>19,916</u></b>	<u>9,933</u>	<u>27,909</u>
<b>EQUITY</b>				
Head Office Account		<b>19,027</b>	10,990	28,184
Cashflow Hedging Reserve		<b>(953)</b>	(2,542)	(1,909)
Available for Sale Reserve		<b>(16)</b>	(36)	36
Other Reserve		<b>1,858</b>	1,521	1,598
<b>Total Equity</b>		<b><u>19,916</u></b>	<u>9,933</u>	<u>27,909</u>

*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 2011

<i>Dollars in Thousands</i>	<b>Unaudited Nine months ended 30.09.11</b>	<b>Unaudited Nine months ended 30.09.10 (Restated)</b>
<b><i>Cash flows from / (to) operating activities</i></b>		
Interest received	138,393	154,432
Fees and commissions	34,805	28,182
Realised trading gain / (loss)	(30,839)	4,371
Interest paid	(74,624)	(83,924)
Operating expenses	(44,262)	(42,095)
Taxation paid	(14,251)	(32,096)
<b>Net cash flows from / (to) operating activities before changes in operating assets and liabilities</b>	<b>9,222</b>	<b>28,870</b>
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Debt and equity securities purchased	115,632	11,136
Advances to customers	(53,698)	261,541
Amounts due from related parties	(288,782)	(29,957)
Other assets	(1,270)	(1,047)
Other liabilities	6,290	4,127
Debt securities issued (Certificates of deposit)	(289,084)	(36,816)
Debt securities issued (Medium term notes)	200,000	(97,100)
Deposits by banks	16,075	(941)
Customer deposits	187,482	(411,169)
Amounts due to related parties	(296,099)	316,341
<b>Net change in operating assets and liabilities</b>	<b>(403,454)</b>	<b>16,115</b>
Net cash flows from / (to) operating activities	<b>(394,232)</b>	<b>44,985</b>
<b><i>Cash flows from / (to) investing activities</i></b>		
Proceeds from sale of fixed assets	1	3
Acquisition of fixed assets	(213)	(397)
Acquisition of intangible assets	(3,410)	-
Net cash flows from / (to) investing activities	<b>(3,622)</b>	<b>(394)</b>
<b><i>Cash flows from / (to) financing activities</i></b>		
Repatriation to head office	(52,189)	(52,612)
Net cash flows from / (to) financing activities	<b>(52,189)</b>	<b>(52,612)</b>
Net increase / (decrease) in cash and cash equivalents	<b>(450,043)</b>	<b>(8,021)</b>
Effect of exchange rate fluctuations on cash held	4,941	5,966
Cash and cash equivalents at beginning of period	<b>(669,389)</b>	<b>(620,619)</b>
Cash and cash equivalents at end of period	<b>(1,114,491)</b>	<b>(622,674)</b>

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

## STATEMENT OF CASH FLOWS *(continued)*

### FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

<i>Dollars in Thousands</i>	Unaudited Nine months ended 30.09.11	Unaudited Nine months ended 30.09.10 (Restated)
<i>Analysis of cash and cash equivalents</i>		
Cash and demand balances with central banks	356,151	516,768
Advances to banks – demand	19,683	22,019
Advances to customers – demand	128,752	117,219
Balance due from related parties – demand	25,580	77,903
Balance due to related parties – demand	(147,114)	(33,723)
Deposits by banks – demand	(166,446)	(95,505)
Deposits by customers - demand	(1,331,097)	(1,227,355)
	<u>(1,114,491)</u>	<u>(622,674)</u>
<i>Reconciliation of profit after tax to net cash flows from operating activities</i>		
Profit after tax	43,032	38,995
<i>Adjustments to reconcile profit after tax to net cash flow from operating activities:</i>		
Change in interest accruals and deferred income	1,620	(1,087)
Change in mark to market accruals	(40,984)	(5,216)
Depreciation	648	630
Amortisation of intangible asset	781	636
Amortisation of premium and discounts	(696)	3,960
Change in deferred income and accrued expense	650	(1,186)
Amortisation of share options granted	325	260
Impairment charge / (release) on loans and advances	1,186	6,498
(Gain) / loss on disposal of available-for-sale equity securities	40	35
(Gain) / loss on disposal of fixed assets	-	(1)
Current / deferred taxation	2,620	(14,654)
Adjust operating cash flows not included in profit after tax:		
Net change in operating assets and liabilities	<u>(403,454)</u>	<u>16,115</u>
Net cash flows from operating activities	<u>(394,232)</u>	<u>44,985</u>

*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 considered for aggregation to form the Banking Group:

##### *The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch*

##### *HSBC Nominees (New Zealand) Limited*

This 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 entity provides fund management services to customers and commenced trading operations in June 2008. HSBC Investments New Zealand Limited is wholly owned by HSBC Asia Pacific Holdings (UK) Limited which is wholly owned by HBAP.

Due to the immaterial nature of the investments and results of both HSBC Nominees (New Zealand) Limited and HSBC Investments New Zealand Limited for the nine months ended 30 September 2011, management has decided to exclude both subsidiaries from the financial statements of the Banking Group. The companies are both incorporated in New Zealand.

##### *HSBC Cash Fund*

The HSBC Cash Fund is a unit trust set up in June 2008 following the introduction by the New Zealand Inland Revenue of the Portfolio Investment Entity (“PIE”) regime. The HSBC Cash Fund is managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Cash Fund is administered in accordance with the trust deed. All funds received into the HSBC Cash Fund are placed with the Branch and are included in the Branch’s financial results as Customer Deposits.

##### *HSBC Term Fund*

The HSBC Term Fund is a unit trust, first set up in April 2009, following the introduction by the New Zealand Inland Revenue of the Portfolio Investment Entity (“PIE”) regime. The HSBC Term Fund is managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Term Fund is administered in accordance with the trust deed. All funds received into the HSBC Term Fund are placed with the Branch and are included in the Branch’s financial results as Customer Deposits.

##### Non-Banking Group Entities

The following New Zealand incorporated entities do not form part of the Banking Group as defined in the Conditions of Registration. They are ultimately wholly owned by HSBC Holdings plc and HBAP is not their parent entity.

*HSBC International Trustee (New Zealand) Limited* and *HSBC International Trustee Limited, New Zealand Branch* provide trustee services to an international client base. HSBC International Trustee (New Zealand) Limited is a wholly owned subsidiary of Bermuda Asia Pacific Holdings Limited, incorporated in the Cook Islands. HSBC International Trustee Limited is a body corporate incorporated in British Virgin Islands.

##### Non-controlled Special Purpose Entities

The following New Zealand incorporated entities do not form part of the Banking Group as defined in the Conditions of Registration. The Banking Group does not control the Special Purpose Entities.

##### *HSBC Global Unit Trusts*

The HSBC Global Unit Trusts were set up in August 2009 to support the local launch of HSBC Group Investment Funds under the Portfolio Investment Entity (“PIE”) structure and branded locally as HSBC Investments New Zealand Limited Global Unit Trusts.

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

### 1. Statement of Accounting Policies *(continued)*

#### Non-controlled Special Purpose Entities *(continued)*

##### *HSBC Global Unit Trusts (continued)*

The HSBC Global Unit Trusts are managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Global Unit Trusts are administered in accordance with the trust deed. Funds received into the HSBC Global Unit Trusts are primarily invested in shares of a sub-fund of HSBC Global Investment Funds, an investment company incorporated in the Grand Duchy of Luxembourg. HSBC Investment Funds (Luxembourg) S.A., the manager of the Sub-funds is part of HSBC Global Asset Management. There are currently four funds offered; HSBC China Fund, HSBC BRIC Fund, HSBC India Fund and HSBC Asia ex Japan Fund.

##### *HSBC World Selection Funds*

The HSBC World Selection Funds were established on 18 January 2010 to support the local launch of HSBC Portfolios under the Portfolio Investment Entity (“PIE”) structure.

The HSBC World Selection Funds are managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC World Selection Funds are administered in accordance with the trust deed. Funds received into the HSBC World Selection Funds are invested primarily in shares of a sub-fund of HSBC Portfolios, an investment company incorporated in the Grand Duchy of Luxembourg. HSBC Investment Funds (Luxembourg) S.A. is the manager of the HSBC Portfolios and HSBC Global Asset Management (UK) Limited is the investment adviser. Both the manager and investment adviser are part of HSBC Global Asset Management. There are currently three funds offered; HSBC World Selection – Foundation Fund, HSBC World Selection – Frontier Fund, and HSBC World Selection – Horizon Fund.

#### Basis of consolidation

##### *Special purpose entities*

The Banking Group has established the following special purpose entities (‘SPEs’): the HSBC Cash Fund, the HSBC Term Fund, the HSBC Global Unit Trusts and the HSBC World Selection Funds.

The Banking Group does not have any direct or indirect unit holding in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Banking Group and the SPE’s risks and rewards, the Banking Group concludes that it controls the SPE. The SPEs controlled by the Banking Group are established under terms that impose strict limitations on the decision making powers of the SPEs’ management and operates in a predetermined way such that virtually all rights, obligations and aspects of their activities are controlled through these terms.

##### *Transactions eliminated on consolidation*

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

#### Basis of Reporting

These interim financial statements are prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 3) 2011, the Reserve Bank of New Zealand Act 1989 and NZ IAS 34 Interim Financial Reporting and do not include all the disclosures required for full annual financial statements. These interim financial statements are condensed financial statements in accordance with NZ IAS 34 Interim Financial Reporting.

#### Measurement Base

These interim financial statements are based on the general principles of historical cost accounting, as modified by the revaluation of certain assets and liabilities. The going concern concept of accounting has been adopted. All amounts are expressed in New Zealand currency, the presentation currency and functional currency, and all references to “\$” is to New Zealand dollars unless otherwise stated.

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

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### 1. Statement of Accounting Policies *(continued)*

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#### Particular Accounting Policies

These interim financial statements have been prepared in accordance with NZ IAS 34 and should be read in conjunction with the General Disclosure Statement for the year ended 31 December 2010. The same accounting policies have been followed in these interim financial statements as were applied in the presentation of the General Disclosure Statement for the year ended 31 December 2010.

#### Changes in Accounting Policies

The accounting policies have not changed and are the same as those applied by the Banking Group in the General Disclosure Statement for the year ended 31 December 2010.

#### Comparative Figures

These interim financial statements include comparative information as required by NZ IAS 34 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 3) 2011.

In the comparative period, the amortisation of premium and discounts of debt securities was presented in interest received and interest paid in the Statement of Cash Flows. For the current period ended 30 September 2011, it is presented as a non-cash item and reclassified as changes in operating assets and liabilities. The classification of amounts due to related parties and medium term notes has been changed from financing activities to operating activities in the Statement of Cash Flows, to more accurately reflect the nature of the transactions. Comparative figures have been restated accordingly and there was no impact on the net movement in cash and cash equivalents. There have been no other changes to the comparative figures.

#### Risk Management

There has been no material change during the nine months ended 30 September 2011 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)*

	<b>Unaudited 30.09.11</b>
<i>Dollars in Thousands</i>	

**2. Other Net Operating Income**

Fee and commission income	38,340
Fee and commission expense	(3,108)
Loss on disposal of available-for-sale equity securities	(40)
	<u>35,192</u>

**3. 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	514,897
Derivative financial instruments – assets	47,001
<b>Total related party assets</b>	<u>561,898</u>

**Liabilities**

Amounts due to related parties	991,335
Derivative financial instruments – liabilities	68,898
<b>Total related party liabilities</b>	<u>1,060,233</u>

<b>4. Total Liabilities Net of Amounts Due to Related Parties</b>	<b>3,850,460</b>
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**5. Interest Earning Assets and Interest Bearing Liabilities**

Total interest earning and discount bearing assets	4,653,404
Total interest and discount bearing liabilities	4,425,052

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

Segment information is presented in respect of the Banking Group's business segments based on the Banking Group's management and internal reporting structure.

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

The Banking Group operates primarily in New Zealand. Geographical information on revenues from external customers is not available and the cost to develop it would be excessive.

**Business Segments**

The Banking Group comprises the following main business segments:

- *Retail Banking and Wealth Management (RBWM) (formerly Personal Financial Services (PFS))*  
Includes loans, deposits and other transactions with retail customers.
- *Commercial Banking (CMB)*  
Manages the relationships with small and medium sized corporate customers providing loans, deposits and other transactions including trade finance and payment cash management.
- *Global Banking and Markets (GBM)*  
Manages the relationships with large corporate and 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 retained profits.

<i>Dollars in Thousands</i>	Unaudited nine months ended 30.09.11					
	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Operating income	21,884	61,726	18,078	101,688	6,067	107,755
Operating profit / (loss) before tax	4,026	41,760	8,748	54,534	5,369	59,903

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

<i>Dollars in Thousands</i>	<b>Unaudited 30.09.11</b>
<b>7. Asset Quality</b>	
In the current period there is only one class of impaired financial assets, being advances to customers.	
<b>Gross individually impaired assets</b>	<b>66,203</b>
<b>Gross advances past due 90 days or more but not impaired</b>	<b>-</b>
<b>Specific provision for loan impairment</b>	
Balance at the beginning of the period	18,412
New and additional provisions charged to profit or loss	2,746
Provisions released during the period to profit or loss	(1,008)
Write-offs	(771)
Discount unwind <sup>1</sup>	(1,956)
Exchange adjustment	39
Balance at the end of the period	<u>17,462</u>
<b>Collective provision for loan impairment</b>	
Balance at the beginning of the period	1,775
Additional provision charged to profit or loss	509
Provisions released during the period to profit or loss	(397)
Balance at the end of the period	<u>1,887</u>
Total provisions for loan impairment	<u>19,349</u>
<b>Profit or loss charge / (credit)</b>	
Provisions for impairment against advances	3,255
Provisions release no longer required	(1,405)
	<u>1,850</u>
Recoveries of amounts written off in previous period	(664)
	<u>1,186</u>

<sup>1</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)*

### 8. Risk Weighted Exposures

Risk weighted exposures are derived in accordance with the Reserve Bank of New Zealand's Capital Adequacy Framework as required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 3) 2011.

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The contract amount represents the amount at risk should the contract be fully drawn upon and the client default. The credit equivalent amounts are determined in accordance with the original exposure method under the Reserve Bank of New Zealand's risk weighted capital adequacy guidelines.

Off - balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Banking Group in the foreign exchange and interest rate markets. Contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

#### *Total risk weighted exposure – 30 September 2011 (Unaudited)*

<i>On-balance sheet</i>	<i>Principal Amount</i>	<i>Risk Weight</i>	<i>Risk Weighted Exposure</i>	
	<i>\$m</i>	<i>%</i>	<i>\$m</i>	
Cash and short-term claims on government	435.7	0.0	-	
Claims on banks	1,299.8	20.0	260.0	
Residential mortgages	979.6	50.0	489.8	
Other assets	2,000.8	100.0	2,000.8	
Non-risk weighted assets	214.7	-	-	
<b>Total assets</b>	<b>4,930.6</b>		<b>2,750.6</b>	
<i>Off-balance sheet</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Average Counterparty Risk weight</i>	<i>Risk Weighted Exposure</i>
	<i>\$m</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>
Direct credit substitutes	52.3	52.3	42.4	22.2
Transaction related contingent items	103.5	51.7	89.7	46.4
Trade related contingent items	112.5	22.5	32.9	7.4
Commitments, maturity one year or more	856.7	428.4	95.3	408.4
Commitments, maturity up to one year	899.0	-	-	-
Market related contracts				
Foreign exchange contracts:				
Forwards				
- Trading	5,336.2	182.8	21.9	40.1
Currency Options				
- Trading	3,093.9	113.2	32.7	37.0
Cross Currency Swaps				
- Trading	2,297.3	194.2	29.1	56.5
Interest rate contracts:				
Swaps				
- Trading	2,541.6	91.3	29.8	27.2
- Other than trading	362.0	7.7	19.5	1.5
Interest rate options				
- Trading	153.0	5.0	20.0	1.0
<b>Total off-balance sheet exposures</b>	<b>15,808.0</b>	<b>1,149.1</b>		<b>647.7</b>
<b>Total risk weighted credit exposures</b>				<b>3,398.3</b>

#### *Residential mortgages by loan-to-valuation ratio as at 30 September 2011 (Unaudited)*

	<i>Principal Amount</i>			<i>Total</i>
	<i>Does not exceed 80%</i>	<i>Exceeds 80% and not 90%</i>	<i>Exceeds 90%</i>	
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
Value of exposures on balance sheet	954.5	17.5	7.6	979.6
Value of exposures off balance sheet	34.7	0.6	0.3	35.6
<b>Total value of exposures</b>	<b>989.2</b>	<b>18.1</b>	<b>7.9</b>	<b>1,015.2</b>

**Notes to and forming part of the Interim Financial Statements** *(continued)***9. 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, registered certificates of deposits issued by other banks, and overnight deposits held with related parties. The Banking Group holds the following liquid assets in order to manage its liquidity risk:

<i>Dollars in Thousands</i>	<b>Unaudited 30.09.11</b>
Demand balances with the central bank	<b>355,020</b>
Available-for-sale debt securities and treasury bills	<b>561,170</b>
Amount due from related parties	-
	<b><u>916,190</u></b>

**10. Market Risk Exposures**

Aggregate market risk exposures are derived in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) as stated in clauses 4 of the Ninth Schedule to the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 3) 2011.

<i>Dollars in Millions</i>	<i>Implied risk weighted Exposure</i>	<i>Notional capital charge</i>
<b><i>Exposure at 30 September 2011 (Unaudited)</i></b>		
Interest rate risk	<b>21.75</b>	<b>1.74</b>
Foreign currency risk	<b>1.00</b>	<b>0.08</b>
Equity risk	-	-
	<hr/>	<hr/>

**11. Concentration of Credit Exposures to Individual Counterparties**

The Banking Group has no credit exposures including exposures to any OECD Government, 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.

**Notes to and forming part of the Interim Financial Statements** (continued)**12. Profitability, Size and Asset Quality of HBAP Group**

<i>Dollars in HK\$ millions</i>	<b>Unaudited Period ended 30.06.11</b>
<b>Profitability</b>	
Net profit after tax	37,337
Net profit after tax over the previous 12 month period, as a percentage of average total assets	1.4%
<b>Size</b>	
Total assets	5,497,059
Percentage increase in total assets over the 12 months ending on 30 June 2011	18.6%
<b>Asset Quality</b>	
Individually impaired assets	13,107
Individual impairment provision against advances to customers	7,063
Collective impairment provision against advances to customers	4,515
Individually impaired assets / total assets	0.2%
Individual impairment provision / impaired assets	53.9%

**13. Capital Adequacy Ratios**

HBAP Group is subject to the capital requirements as specified by the Hong Kong Monetary Authority (HKMA). HBAP Group uses the advanced internal ratings-based approach (IRBA) 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 securitisation exposures. For market risk, HBAP Group used an internal models approach to calculate its general market risk and market risk relating to equity options. HBAP Group uses an internal models approach to calculate its market risk in respect of specific risk for the interest rate risk category. HBAP Group uses the standardised (market risk) approach for calculating other market risk positions 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 and are not publicly available. HBAP Group meets, and exceeds, the minimum capital ratio requirements as specified by the HKMA as at 30 June 2011 and 31 December 2010.

HBAP Group reported the following capital adequacy ratios:

	<b>Unaudited 30.06.11</b>	Unaudited 31.12.10
<b>Basel II IRBA Approach</b>		
Core capital ratio	11.7%	11.7%
Capital adequacy ratio	14.5%	14.7%

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

**14. Insurance and non-financial activities**

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

**15. Subsequent Event**

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

## Directors' and New Zealand Chief Executive Officer's Statements

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 3) 2011;
- 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 2011.

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, Noel Gerard McNamara, and also in his capacity as Chief Executive Officer:



**Noel Gerard McNamara**  
*Chief Executive Officer*  
*New Zealand Branch*

25 November 2011

It is confirmed that the said powers of attorney appointing Noel Gerard McNamara are still in force and have not been revoked.



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