



The Hongkong and Shanghai Banking  
Corporation Limited

**Interim Disclosure Statement**  
*prepared under the Banking (Disclosure) Rules  
made pursuant to section 60A of the Banking Ordinance*

**Supplementary Notes**  
for the six months ended 30 June 2009

The information contained in this document is supplementary to and should be read in conjunction with the 2009 Interim Consolidated Results Press Release issued on 3 August 2009, available at [www.hsbc.com.hk](http://www.hsbc.com.hk). The information in the two documents, taken together, complies with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

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## **1. Basis of preparation**

- a.** Under the Banking (Capital) Rules effective on 1 January 2007, the group used the standardised (credit risk) approach and standardised (securitisation) approach to calculate its credit risk for non-securitisation exposures and credit risk for securitisation exposures respectively. Effective 1 January 2008, the group adopted the foundation internal ratings-based approach and internal ratings-based (securitisation) approach to determine credit risk. It also used the standardised (operational risk) approach and standardised (market risk) approach to calculate its operational risk and market risk respectively. An internal models approach was adopted for calculating general market risk, while a separate model is used for calculating the market risk relating to equity options.

From 1 January 2009, the group migrated to the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. From 30 March 2009, the group adopted an internal models approach to calculate its market risk in respect of specific risk for the interest rate risk category. As a result, the numbers for 2008 are not strictly comparable. Apart from these, there are no changes in the approaches used to calculate credit risk for securitisation exposures, operational risk and market risk for other risk categories.

- b.** Except where indicated otherwise, the financial information contained in this Interim Disclosure Statement and in the 2009 Interim Consolidated Results Press Release has been prepared on a consolidated basis in accordance with accounting principles generally accepted in Hong Kong. Some parts of the information contained in this Statement, however, are required by the Banking (Disclosure) Rules to be prepared on a different basis. In such cases, the Banking (Disclosure) Rules require that certain information is prepared on a basis which excludes some of the subsidiaries of The Hongkong and Shanghai Banking Corporation Limited ('the Bank'). Further information regarding subsidiaries is set out in note 26 below.
- c.** The accounting policies applied in preparing this document are the same as those applied in preparing the financial statements for the year ended 31 December 2008, as disclosed in the Annual Report and Accounts for 2008, except where otherwise stated in the 2009 Interim Consolidated Results Press Release issued on 3 August 2009.

**2. Net fee income**

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2009</i>	<i>Half-year ended 30 June 2008</i>
Net fee income includes the following:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at fair value		
- fee income	5,560	5,576
- fee expense	(557)	(541)
	<u>5,003</u>	<u>5,035</u>
Net fee income on trust and other fiduciary activities where the group holds or invests assets on behalf of its customers		
- fee income	2,870	4,269
- fee expense	(258)	(486)
	<u>2,612</u>	<u>3,783</u>

**3. Gains less losses on loans and receivables, held-to-maturity investments and financial liabilities measured at amortised cost**

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2009</i>	<i>Half-year ended 30 June 2008</i>
Loans and receivables	<u>274</u>	<u>23</u>

There are no gains or losses on held-to-maturity investments or financial liabilities measured at amortised cost for the half-year ended 30 June 2009 and 30 June 2008.

**4. Dividend income**

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2009</i>	<i>Half-year ended 30 June 2008</i>
Listed investments	<b>29</b>	430
Unlisted investments	<b>103</b>	106
	<b>132</b>	536

**5. Cash and short-term funds**

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Cash in hand	<b>10,640</b>	10,864
Sight balances with central banks	<b>137,284</b>	118,326
Placing with banks with remaining maturity of one month or less	<b>510,935</b>	336,731
Treasury bills and other eligible bills	<b>297,234</b>	131,651
	<b>956,093</b>	597,572

As at 30 June 2009, included within notes 5 and 6, total amount placed with central banks, including sight balances, made by the group amounted to HK\$336,999 million (2008:HK\$234,582 million).

## 6. Placings with banks

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Placings with banks maturing after one month but not more than one year	<b>53,780</b>	51,763
Placings with banks maturing after one year	<b>3,499</b>	<u>3,806</u>
Placings with banks maturing after one month	<b><u>57,279</u></b>	<b><u>55,569</u></b>

There are no significant overdue, impaired or rescheduled placings with banks as at 30 June 2009 and 31 December 2008.

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## 7. Certificates of deposit

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Held-to-maturity	<b>3,957</b>	4,472
Available-for-sale	<b>43,900</b>	<u>52,606</u>
	<b><u>47,857</u></b>	<b><u>57,078</u></b>

## 8. Advances to customers

### a. Analysis of advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA')

The following analysis of advances to customers is based on the categories contained in the 'Quarterly Analysis of Loans and Advances and Provisions' return required to be submitted to the HKMA by branches of the Bank and by banking subsidiary companies in Hong Kong.

<i>Figures in HK\$m</i>	<u>Gross advances</u>	<u>Collateral and other security</u>
<b>At 30 June 2009</b>		
<b>Industrial, commercial and financial</b>		
Property development	50,340	14,713
Property investment	133,012	104,287
Financial concerns	8,031	1,808
Stockbrokers	11,771	373
Wholesale and retail trade	46,348	15,558
Manufacturing	26,530	5,597
Transport and transport equipment	23,289	18,774
Recreational activities	84	19
Information technology	4,648	49
Others	59,757	16,600
	<u>363,810</u>	<u>177,778</u>
<b>Individuals</b>		
Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme	28,570	28,368
Advances for the purchase of other residential properties	206,036	205,539
Credit card advances	33,294	-
Others	31,598	10,096
	<u>299,498</u>	<u>244,003</u>
Gross advances to customers for use in Hong Kong	663,308	421,781
Trade finance	52,706	18,043
Gross advances to customers for use outside Hong Kong made by branches of the Bank and subsidiary companies in Hong Kong	<u>22,295</u>	<u>1,551</u>
Gross advances to customers made by branches of the Bank and subsidiary companies in Hong Kong	738,309	441,375
Gross advances to customers made by branches of the Bank and subsidiary companies outside Hong Kong	<u>566,626</u>	<u>245,066</u>
Gross advances to customers	<u>1,304,935</u>	<u>686,441</u>

**8. Advances to customers** *(continued)*

**a. Analysis of advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA')** *(continued)*

<i>Figures in HK\$m</i>	<i>Gross advances</i>	<i>Collateral and other security</i>
<b>At 31 December 2008</b>		
<b>Industrial, commercial and financial</b>		
Property development	55,646	15,280
Property investment	139,174	108,386
Financial concerns	9,417	3,071
Stockbrokers	744	308
Wholesale and retail trade	51,580	16,828
Manufacturing	31,811	5,927
Transport and transport equipment	29,026	17,552
Recreational activities	55	28
Information technology	4,189	75
Others	49,562	12,555
	<u>371,204</u>	<u>180,010</u>
<b>Individuals</b>		
Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme	30,086	29,777
Advances for the purchase of other residential properties	198,982	197,547
Credit card advances	36,255	-
Others	34,232	11,628
	<u>299,555</u>	<u>238,952</u>
Gross advances to customers for use in Hong Kong	670,759	418,962
Trade finance	64,758	21,965
Gross advances to customers for use outside Hong Kong made by branches of the Bank and subsidiary companies in Hong Kong	<u>17,793</u>	<u>3,005</u>
Gross advances to customers made by branches of the Bank and subsidiary companies in Hong Kong	753,310	443,932
Gross advances to customers made by branches of the Bank and subsidiary companies outside Hong Kong	<u>543,793</u>	<u>221,776</u>
Gross advances to customers	<u>1,297,103</u>	<u>665,708</u>

**8. Advances to customers** (*continued*)

**a. Analysis of advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA')** (*continued*)

Collateral includes any tangible security that has a determinable fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance is included.

**b. Analysis of advances to customers by geographical areas according to the location of counterparties, after recognised risk transfer**

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Americas/ Europe/ Others</i>	<i>Total</i>
<b>At 30 June 2009</b>				
Gross advances to customers	<u>670,170</u>	<u>545,152</u>	<u>89,613</u>	<u>1,304,935</u>
<b>At 31 December 2008</b>				
Gross advances to customers	<u>681,961</u>	<u>523,186</u>	<u>91,956</u>	<u>1,297,103</u>



**8. Advances to customers** (*continued*)

*c. Advances to customers and allowances*

The geographical information shown below has been classified by the location of the principal operations of the subsidiary company or, in the case of the Bank, by the location of the branch responsible for advancing the funds.

<i>Figures in HK\$m</i>	<u><i>Hong Kong</i></u>	<u><i>Rest of Asia-Pacific</i></u>	<u><i>Total</i></u>
<b>At 30 June 2009</b>			
Gross advances to customers	738,309	566,626	1,304,935
Individually assessed impairment allowances	(3,819)	(3,721)	(7,540)
Collectively assessed impairment allowances	<u>(2,630)</u>	<u>(4,155)</u>	<u>(6,785)</u>
Net advances to customers	<u>731,860</u>	<u>558,750</u>	<u>1,290,610</u>
<b>At 31 December 2008</b>			
Gross advances to customers	753,310	543,793	1,297,103
Individually assessed impairment allowances	(3,108)	(1,925)	(5,033)
Collectively assessed impairment allowances	<u>(2,460)</u>	<u>(3,465)</u>	<u>(5,925)</u>
Net advances to customers	<u>747,742</u>	<u>538,403</u>	<u>1,286,145</u>

**8. Advances to customers** (*continued*)

**d. Individually assessed impaired advances to customers**

The geographical information shown below has been classified by the location of the principal operations of the subsidiary company or, in the case of the Bank, by the location of the branch responsible for advancing the funds.

<i>Figures in HK\$m</i>	<u>Hong Kong</u>	<u>Rest of Asia-Pacific</u>	<u>Total</u>
<b>At 30 June 2009</b>			
Gross individually assessed impaired advances	7,259	8,882	16,141
Individually assessed impairment allowances	<u>(3,819)</u>	<u>(3,721)</u>	<u>(7,540)</u>
	<u>3,440</u>	<u>5,161</u>	<u>8,601</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>1.0%</u>	<u>1.6%</u>	<u>1.2%</u>
Fair value of collateral which has been taken into account in respect of individually assessed impaired advances to customers	<u>3,259</u>	<u>3,939</u>	<u>7,198</u>
<b>At 31 December 2008</b>			
Gross individually assessed impaired advances	6,295	5,050	11,345
Individually assessed impairment allowances	<u>(3,108)</u>	<u>(1,925)</u>	<u>(5,033)</u>
	<u>3,187</u>	<u>3,125</u>	<u>6,312</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>0.8%</u>	<u>0.9%</u>	<u>0.9%</u>
Fair value of collateral which has been taken into account in respect of individually assessed impaired advances to customers	<u>3,243</u>	<u>2,988</u>	<u>6,231</u>

Collateral includes any tangible security that has a determinable fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance is included.

**8. Advances to customers** *(continued)*

**d. Individually assessed impaired advances to customers** *(continued)*

For individually assessed customer advances where the industry sectors comprise more than 10 per cent of the total gross advances to customers, the analysis of gross impaired advances and allowances by major industry sectors based on categories and definitions used by the HSBC Group are as follows:

<i>Figures in HK\$m</i>	<b><i>Total gross advances</i></b>	<b><i>Gross impaired advances</i></b>	<b><i>Individually assessed allowances</i></b>	<b><i>Collectively assessed allowances</i></b>
<b>At 30 June 2009</b>				
Residential mortgages	<b>380,535</b>	<b>3,307</b>	<b>(318)</b>	<b>(345)</b>
Commercial, industrial and international trade	<b>333,064</b>	<b>9,136</b>	<b>(5,734)</b>	<b>(2,339)</b>
Commercial real estate	<b>149,744</b>	<b>953</b>	<b>(173)</b>	<b>(96)</b>
<b>At 31 December 2008</b>				
Residential mortgages	341,803	2,590	(191)	(311)
Commercial, industrial and international trade	359,697	6,137	(3,821)	(2,185)
Commercial real estate	160,053	255	(105)	(83)

Collectively assessed allowances refer to impairment allowances which are assessed on a collective basis for those individually assessed advances where an individual impairment has not yet been identified.

**8. Advances to customers** *(continued)*

**e. Overdue advances to customers**

The geographical information shown below and in note 8f has been classified by the location of the principal operations of the subsidiary company or, in the case of the Bank, by the location of the branch responsible for advancing the funds.

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
<b>At 30 June 2009</b>			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- more than three months but not more than six months	1,320	3,700	5,020
- more than six months but not more than one year	1,776	2,121	3,897
- more than one year	<u>1,082</u>	<u>2,153</u>	<u>3,235</u>
	<u>4,178</u>	<u>7,974</u>	<u>12,152</u>
Overdue advances to customers as a percentage of gross advances to customers:			
- more than three months but not more than six months	0.2%	0.6%	0.4%
- more than six months but not more than one year	0.3%	0.4%	0.3%
- more than one year	<u>0.1%</u>	<u>0.4%</u>	<u>0.2%</u>
	<u>0.6%</u>	<u>1.4%</u>	<u>0.9%</u>
Individually assessed impairment allowances made in respect of such overdue loans and advances	<u>(2,597)</u>	<u>(2,918)</u>	<u>(5,515)</u>
Fair value of collateral held in respect of overdue advances	<u>1,528</u>	<u>2,676</u>	<u>4,204</u>

**8. Advances to customers** *(continued)*

**e. Overdue advances to customers** *(continued)*

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
<b>At 31 December 2008</b>			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- more than three months but not more than one year	1,059	2,559	3,618
- more than six months but not more than one year	603	859	1,462
- more than one year	881	1,613	2,494
	<u>2,543</u>	<u>5,031</u>	<u>7,574</u>
Overdue advances to customers as a percentage of gross advances to customers:			
- more than three months but not more than six months	0.1%	0.5%	0.3%
- more than six months but not more than one year	0.1%	0.2%	0.1%
- more than one year	0.1%	0.3%	0.2%
	<u>0.3%</u>	<u>1.0%</u>	<u>0.6%</u>
Individually assessed impairment allowances made in respect of such overdue loans and advances	<u>(809)</u>	<u>(1,088)</u>	<u>(1,897)</u>
Fair value of collateral held in respect of overdue advances	<u>1,293</u>	<u>1,805</u>	<u>3,098</u>

Collateral includes any tangible security that has a determinable fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance is included.

**8. Advances to customers** (*continued*)

**f. Rescheduled advances to customers**

*Figures in HK\$m*

	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
<b>At 30 June 2009</b>			
Rescheduled advances to customers	<u>2,201</u>	<u>3,102</u>	<u>5,303</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.3%</u>	<u>0.5%</u>	<u>0.4%</u>
<b>At 31 December 2008</b>			
Rescheduled advances to customers	<u>1,688</u>	<u>1,472</u>	<u>3,160</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.2%</u>	<u>0.3%</u>	<u>0.2%</u>

Rescheduled advances to customers are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule.

Rescheduled advances to customers are stated net of any advances which have subsequently become overdue for more than three months and which are included in 'Overdue advances to customers' (note 8e).

## 9. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return for non-bank Mainland exposures, which includes the Mainland exposures extended by the Bank and its banking subsidiaries in Mainland China.

<i>Figures in HK\$m</i>	<i>On-balance sheet exposure</i>	<i>Off-balance sheet exposure</i>	<i>Total exposures</i>	<i>Specific provisions</i>
<b>At 30 June 2009</b>				
Mainland entities	18,512	13,345	31,857	1
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	37,001	36,853	73,854	947
Other counterparties the exposures to whom are considered by the Bank to be non-bank Mainland exposures	138	3,124	3,262	-
	<u>55,651</u>	<u>53,322</u>	<u>108,973</u>	<u>948</u>
Mainland exposures of wholly- owned Mainland subsidiaries	59,013	12,841	71,854	65
	<u>114,664</u>	<u>66,163</u>	<u>180,827</u>	<u>1,013</u>
<b>At 31 December 2008</b>				
Mainland entities	18,541	14,842	33,383	-
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	42,692	40,044	82,736	685
Other counterparties the exposures to whom are considered by the Bank to be non-bank Mainland exposures	509	3,086	3,595	-
	<u>61,742</u>	<u>57,972</u>	<u>119,714</u>	<u>685</u>
Mainland exposures of wholly- owned Mainland subsidiaries	60,709	13,508	74,217	60
	<u>122,451</u>	<u>71,480</u>	<u>193,931</u>	<u>745</u>

## 10. Cross-border exposures

The country risk exposures in the tables below are prepared in accordance with the HKMA return of External Positions Part II: Cross-Border Claims (MA(BS)9B) guidelines.

Cross-border claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk.

The tables show claims on individual countries and territories or areas, after recognised risk transfer, amounting to 10 per cent or more of the aggregate cross-border claims.

Cross-border risk is controlled centrally through a well-developed system of country limits and is frequently reviewed to avoid concentration of transfer, economic or political risk.

<i>Figures in HK\$m</i>	<i>Banks and other financial institutions</i>	<i>Public sector entities</i>	<i>Others</i>	<i>Total</i>
<b>At 30 June 2009</b>				
<b>Americas</b>				
United States	125,770	96,950	53,648	276,368
Others	26,554	11,061	43,829	81,444
	<u>152,324</u>	<u>108,011</u>	<u>97,477</u>	<u>357,812</u>
<b>Europe</b>				
United Kingdom	311,659	2,573	12,394	326,626
Others	254,803	15,183	33,666	303,652
	<u>566,462</u>	<u>17,756</u>	<u>46,060</u>	<u>630,278</u>
<b>Asia-Pacific excluding Hong Kong</b>	<u>168,829</u>	<u>99,909</u>	<u>168,460</u>	<u>437,198</u>
<b>At 31 December 2008</b>				
<b>Americas</b>				
United States	96,870	122,594	48,225	267,689
Others	24,459	4,171	82,817	111,447
	<u>121,329</u>	<u>126,765</u>	<u>131,042</u>	<u>379,136</u>
<b>Europe</b>				
United Kingdom	349,284	575	28,651	378,510
Others	221,598	8,571	62,754	292,923
	<u>570,882</u>	<u>9,146</u>	<u>91,405</u>	<u>671,433</u>
<b>Asia-Pacific excluding Hong Kong</b>	<u>158,481</u>	<u>168,458</u>	<u>167,597</u>	<u>494,536</u>



## 11. Financial investments

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Debt securities		
- available-for-sale	<b>628,582</b>	472,018
- held-to-maturity	<b>95,701</b>	77,502
	<u><b>724,283</b></u>	<u>549,520</u>
Equity shares		
- available-for-sale	<b>50,100</b>	36,641
	<u><b>774,383</b></u>	<u>586,161</u>

Overdue debt securities included above are as follows:

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Debt securities which have been overdue for:		
- more than three months but not more than six months	<b>0</b>	0
- more than six months but not more than one year	<b>26</b>	0
- more than one year	<b>0</b>	0
	<u><b>26</b></u>	<u>0</u>

## 12. Investments in associates

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Investments in associates	<b>49,686</b>	47,343

### 13. Property, plant and equipment

<i>Figures in HK\$m</i>	<i>Premises</i>	<i>Investment properties</i>	<i>Equipment</i>	<i>Total</i>
<b>At 30 June 2009</b>				
Cost or valuation at 1 January 2009	27,376	2,824	16,385	46,585
Exchange and other adjustments	403	15	718	1,136
Additions	63	-	535	598
Disposals	(55)	-	(333)	(388)
Elimination of accumulated depreciation on revalued premises	(415)	-	-	(415)
Surplus on revaluation	339	98	-	437
Reclassifications	(363)	13	-	(350)
At 30 June 2009	<u>27,348</u>	<u>2,950</u>	<u>17,305</u>	<u>47,603</u>
Accumulated depreciation at 1 January 2009	7	-	10,693	10,700
Exchange and other adjustments	26	-	555	581
Charge for the period	431	-	993	1,424
Disposals	(3)	-	(309)	(312)
Elimination of accumulated depreciation on revalued premises	(415)	-	-	(415)
Reclassifications	(1)	-	-	(1)
At 30 June 2009	<u>45</u>	<u>-</u>	<u>11,932</u>	<u>11,977</u>
Net book value at 30 June 2009	<u>27,303</u>	<u>2,950</u>	<u>5,373</u>	<u>35,626</u>

### 14. Other assets

Included in the balance sheet within 'Other assets' are, *inter alia*, repossessed assets which are non-financial assets acquired in exchange for loans in order to achieve an orderly realisation, and are reported at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowance).

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Repossessed assets	<u>327</u>	<u>286</u>

There are no significant overdue other assets as at 30 June 2009 and 31 December 2008.

## 15. Trading liabilities

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Certificates of deposit in issue	4,127	8,593
Other debt securities in issue	24,802	36,505
Short positions in securities	54,851	32,511
Deposits by banks	17,633	8,611
Customer accounts	83,549	124,367
	<u>184,962</u>	<u>210,587</u>

## 16. Financial liabilities designated at fair value

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Deposits by banks	242	258
Customer accounts	1,595	1,782
Subordinated liabilities (note 19)	1,017	994
Debt securities in issue	6,636	6,102
Liabilities to customers under investment contracts	32,482	30,790
	<u>41,972</u>	<u>39,926</u>

## 17. Debt securities in issue

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Certificates of deposit	23,762	33,051
Other debt securities	16,331	15,749
	<u>40,093</u>	<u>48,800</u>

## 18. Other liabilities and provisions

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Accruals and deferred income	16,455	19,717
Provisions for liabilities and charges	1,137	1,093
Acceptances and endorsements	22,705	31,479
Other liabilities	11,841	11,030
	<u>52,138</u>	<u>63,319</u>

## 19. Subordinated liabilities

Subordinated liabilities consist of undated primary capital notes and other loan capital having an original term to maturity of five years or more, raised by the group for the development and expansion of its business.

<i>Figures in HK\$m</i>		<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
US\$1,200m	Undated floating rate primary capital notes	<b>9,393</b>	9,411
Rs 2,000m	Fixed rate (13.05%) subordinated notes due 2009	<b>323</b>	319
TW\$1,499m	Non-callable floating rate subordinated notes due 2009	<b>354</b>	354
TW\$330m	Non-callable floating rate subordinated notes due 2010	<b>78</b>	78
TW\$1,865m	Non-callable floating rate subordinated notes due 2010	<b>441</b>	440
<i>Bank</i>		<b>10,589</b>	10,602
A\$200m	Floating rate subordinated notes due 2016, callable from 2011 <sup>1</sup>	<b>1,257</b>	1,064
A\$42m	Floating rate subordinated notes due 2018, callable from 2013 <sup>2</sup>	<b>264</b>	224
HK\$1,500m	Floating rate subordinated notes due 2015, callable from 2010 <sup>3</sup>	<b>1,499</b>	1,498
US\$450m	Floating rate subordinated notes due 2016, callable from 2011 <sup>4</sup>	<b>3,479</b>	3,478
US\$300m	Floating rate subordinated notes due 2017, callable from 2012 <sup>5</sup>	<b>2,319</b>	2,318
RM500m <sup>†</sup>	Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017 <sup>6</sup>	<b>1,107</b>	-
RM500m <sup>†</sup>	Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022 <sup>7</sup>	<b>1,096</b>	-
<i>Group</i>		<b>21,610</b>	19,184

<sup>†</sup> These subordinated bonds were acquired with the transfer of HSBC Bank Malaysia Berhad from a Group company.

<sup>1</sup> The interest rate on the A\$200m callable subordinated floating rate notes 2016 will increase by 0.5 per cent from May 2011.

<sup>2</sup> The interest rate on the A\$42m callable subordinated floating rate notes 2018 will increase by 0.5 per cent from March 2013.

<sup>3</sup> The interest rate on the HK\$1,500m callable subordinated floating rate notes 2015 will increase by 0.5 per cent from June 2010.

<sup>4</sup> The interest rate on the US\$450m callable subordinated floating rate notes 2016 will increase by 0.5 per cent from July 2011.

<sup>5</sup> The interest rate on the US\$300m callable subordinated floating rate notes 2017 will increase by 0.5 per cent from July 2012.

<sup>6</sup> The interest rate on the 4.35 per cent callable subordinated bonds 2022 will increase by 1 per cent from June 2017.

<sup>7</sup> The interest rate on the 5.05 percent callable subordinated bonds 2027 will increase by 1 per cent from November 2022.

**19. Subordinated liabilities** *(continued)*

The following subordinated note was classified as 'Financial liabilities designated at fair value' (note 16):

<i>Figures in HK\$m</i>		<u><i>At 30 June</i></u> <u><i>2009</i></u>	<u><i>At 31 December</i></u> <u><i>2008</i></u>
HK\$1,000m	Callable fixed rate (4.125%) subordinated notes due 2015 <sup>1</sup>	<u>1,017</u>	<u>994</u>

<sup>1</sup> *The interest rate on the 4.125 per cent callable subordinated notes will change in June 2010 to three-month HIBOR plus 0.825 per cent.*

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**20. Reserves**

The Bank and its banking subsidiary companies maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes.

At 30 June 2009, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$4,270 million (*31 December 2008: HK\$4,395 million*).

**21. Off-balance sheet exposures other than derivatives transactions**

<i>Contract amounts in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
<b>Contingent liabilities and commitments</b>		
- Direct credit substitutes	<b>53,582</b>	60,136
- Transaction-related contingencies	<b>78,192</b>	73,847
- Trade-related contingencies	<b>66,910</b>	72,541
- Forward asset purchases	<b>4,397</b>	4,441
- Forward forward deposits placed	-	696
- Commitments that are unconditionally cancellable without prior notice	<b>902,030</b>	983,881
- Commitments which have an original maturity of not more than one year	<b>67,764</b>	42,874
- Commitments which have an original maturity of more than one year	<b>88,114</b>	72,723
	<b><u>1,260,989</u></b>	<b><u>1,311,139</u></b>
Risk-weighted amounts	<b><u>185,919</u></b>	<b><u>118,991</u></b>

The table above gives the nominal contract amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

For the purposes of this Interim Disclosure Statement, acceptances and endorsements are recognised on the balance sheet in 'Other assets' in accordance with Hong Kong Accounting Standard 39 'Financial Instruments: Recognition and Measurement'. For the purpose of the Banking (Capital) Rules, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Contingent liabilities and commitments are credit-related instruments. The contract amounts represent the amounts at risk should the contracts be fully drawn upon and the customers default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

## 22. Derivative transactions

### a. Contract amounts of derivative transactions

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Exchange rate contracts	5,402,467	6,462,356
Interest rate contracts	9,561,384	9,987,635
Credit derivative contracts	677,669	778,795
Other over-the-counter ('OTC') derivative contracts	325,814	340,134
	<u>15,967,334</u>	<u>17,568,920</u>

Derivatives arise from futures, forward, swap and option transactions undertaken by the group in the foreign exchange, interest rate, equity, credit and commodity markets. The contract amounts of these instruments included in the table above indicate the volume of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

### b. Risk exposures to derivative transactions

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Risk- weighted amount</i>	<i>Fair value</i> †
<b>At 30 June 2009</b>			
Exchange rate contracts	4,576,490	33,581	42,447
Interest rate contracts	9,024,416	14,611	27,867
Credit derivative contracts	679,478	2,028	2,274
Other OTC derivative contracts	151,543	4,134	15,023
	<u>14,431,927</u>	<u>54,354</u>	<u>87,611</u>
<b>At 31 December 2008</b>			
Exchange rate contracts	5,625,924	51,796	73,371
Interest rate contracts	9,510,953	25,803	36,672
Credit derivative contracts	780,460	2,869	2,288
Other OTC derivative contracts	181,901	9,552	22,024
	<u>16,099,238</u>	<u>90,020</u>	<u>134,355</u>

† Fair value is calculated after taking into account the effect of valid bilateral netting agreements amounting to HK\$191,279 million at 30 June 2009 (31 December 2008: HK\$308,134 million).

**22. Derivative transactions** *(continued)*

The table above gives the contract amounts, the risk-weighted amounts and the fair value of derivative exposures. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

Fair value is a close approximation of the credit risk for these contracts at the balance sheet date. The actual credit risk is measured internally as the sum of positive mark-to-market values and an estimate for the future fluctuation risk, using a future risk factor.

The netting adjustments represent amounts where the group has in place legally enforceable rights of offset with individual counterparties to offset the gross amount of positive mark-to-market assets with any negative mark-to-market liabilities with the same customer. These offsets are recognised by the HKMA in the calculation of risk-weighted amount for the capital adequacy ratio.



### 23. Foreign exchange exposure

Foreign exchange exposures may be divided broadly into two categories: structural and non-structural. Structural exposures are normally long-term in nature and include those arising from investments in overseas subsidiaries, branches, associates and strategic investments as well as capital instruments denominated in currencies other than Hong Kong dollars. Non-structural exposures arise primarily from trading positions and balance sheet management activities. Non-structural exposures can arise and change rapidly. Foreign currency exposures are managed in accordance with the group's risk management policies and procedures.

The group had the following structural foreign currency exposures that were not less than 10 per cent of the total net structural foreign currency positions in all foreign currencies:

	<i>Net structural position</i>	
	<i>LCYm</i>	<i>HK\$m</i>
<b>At 30 June 2009</b>		
Chinese renminbi	<b>85,821</b>	<b>97,375</b>
Indian rupees	<b>141,251</b>	<b>22,847</b>
<b>At 31 December 2008</b>		
Chinese renminbi	73,792	83,819
Indian rupees	133,870	21,339

The group had the following non-structural foreign currency positions that were not less than 10 per cent of the group's net non-structural positions in all foreign currencies:

<i>Figures in HK\$m</i>	<i>United States dollars</i>	<i>Singapore dollars</i>	<i>Brunei dollars</i>	<i>Chinese renminbi</i>
<b>At 30 June 2009</b>				
Spot assets	<b>3,038,720</b>	<b>224,101</b>	<b>77,400</b>	<b>84,828</b>
Spot liabilities	<b>(3,048,183)</b>	<b>(279,995)</b>	<b>(26,305)</b>	<b>(74,433)</b>
Forward purchases	<b>2,392,702</b>	<b>206,442</b>	<b>146</b>	<b>305,409</b>
Forward sales	<b>(2,401,487)</b>	<b>(146,352)</b>	<b>(55,549)</b>	<b>(320,225)</b>
Net options position	<b>17,806</b>	<b>(60)</b>	<b>-</b>	<b>-</b>
	<b>(442)</b>	<b>4,136</b>	<b>(4,308)</b>	<b>(4,421)</b>
<b>At 31 December 2008</b>				
Spot assets	2,947,677	113,295	73,565	97,229
Spot liabilities	(2,922,971)	(168,458)	(26,390)	(77,588)
Forward purchases	3,127,618	292,172	131	406,545
Forward sales	(3,160,163)	(234,203)	(50,115)	(428,163)
Net options position	19,173	(12)	-	-
	<b>11,334</b>	<b>2,794</b>	<b>(2,809)</b>	<b>(1,977)</b>

The net options position reported above is calculated using the delta-weighted position of the options contracts.

## 24. Liquidity ratio

The Banking Ordinance requires banks operating in Hong Kong to maintain a minimum liquidity ratio of 25 per cent, calculated in accordance with the provisions of the Fourth Schedule of the Banking Ordinance. This requirement applies separately to the Hong Kong branches of the Bank and to those subsidiary companies which are authorised institutions under the Banking Ordinance.

<i>Half-year ended</i>	<i>Half-year ended</i>
<i>30 June</i>	<i>30 June</i>
<i>2009</i>	<i>2008</i>

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The average liquidity ratio for the period was as follows:

Hong Kong branches of the Bank	<u>50.8%</u>	<u>55.3%</u>
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## 25. Capital adequacy

The following table shows the capital adequacy ratio and the components of capital base contained in the 'Capital Adequacy Ratio' return required to be submitted to the HKMA by The Hongkong and Shanghai Banking Corporation Limited on a consolidated basis that is specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

There are no relevant capital shortfalls in any of the group's subsidiaries as at 30 June 2009 which are not included in its consolidation group for regulatory purposes.

<i>Figures in HK\$m</i>	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
<b>Composition of capital</b>		
<b>Core Capital</b>		
Paid-up ordinary share capital	21,040	21,040
Paid-up irredeemable non-cumulative preference shares	51,561	51,561
Published reserves	109,573	84,262
Profit and loss account	10,053	19,953
Minority interests <sup>†</sup>	17,973	16,087
Less: Deduction from core capital	(18,844)	(14,457)
Less: 50% of total amount of deductible items (@50%) <sup>††</sup>	(33,359)	(32,212)
<b>Total core capital</b>	<b>157,997</b>	<b>146,234</b>
<b>Supplementary Capital</b>		
Property revaluation reserves <sup>†††</sup>	6,756	6,655
Available-for-sale investments revaluation reserves <sup>††††</sup>	4,304	2,881
Unrealised fair value gains from financial instruments designated at fair value through profit or loss	3	1
Regulatory reserve <sup>†††††</sup>	666	723
Collective provisions <sup>††††††</sup>	989	908
Surplus provisions <sup>†††††††</sup>	1,281	2,904
Perpetual subordinated debt	9,393	9,410
Paid-up irredeemable cumulative preference shares	16,508	16,508
Term subordinated debt	14,242	11,786
Paid-up term preference shares	32,938	24,800
Less: 50% of total amount of deductible items (@50%) <sup>††</sup>	(33,359)	(32,212)
<b>Total supplementary capital</b>	<b>53,721</b>	<b>44,364</b>
<b>Capital base</b>	<b>211,718</b>	<b>190,598</b>
<b>Total deductible items<sup>††</sup></b>	<b>66,718</b>	<b>64,424</b>

**25. Capital adequacy (continued)**

- ⌘ *After deduction of minority interests in unconsolidated subsidiary companies.*
- ⌘⌘ *Total deductible items are deducted from institution's core capital and supplementary capital.*
- ⌘⌘⌘ *Includes the revaluation surplus on investment properties which is reported as part of retained profits.*
- ⌘⌘⌘⌘ *Includes adjustments made in accordance with guidelines issued by the HKMA.*
- ⌘⌘⌘⌘⌘ *Total regulatory reserve and collective provisions are apportioned between the standardised approach and internal ratings-based approach in accordance with guidelines issued by the HKMA. Those apportioned to the standardised approach are included in the supplementary capital. Those apportioned to the internal ratings-based approach are excluded from the supplementary capital.*
- ⌘⌘⌘⌘⌘⌘ *Surplus provisions represent the excess of the total eligible provisions over the total expected loss amount. Surplus provisions are applicable to non-securitisation exposures calculated by using the internal ratings-based approach.*

The capital ratios on a consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	<i>At 30 June 2009</i>	<i>At 31 December 2008</i>
Capital adequacy ratio	<u><b>15.9%</b></u>	<u>13.4%</u>
Core capital ratio	<u><b>11.9%</b></u>	<u>10.3%</u>

## **26. Principal subsidiaries and basis of consolidation**

The basis of consolidation for accounting purposes is in accordance with the Hong Kong Financial Reporting Standards ('HKFRS'). HKFRS is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

The major subsidiaries of the Bank for accounting purposes are:

Hang Seng Bank Limited  
HSBC Bank (China) Company Limited  
HSBC Bank Malaysia Berhad  
HSBC Bank Australia Limited<sup>†</sup>  
HSBC Insurance (Asia) Limited<sup>†</sup>  
HSBC Life (International) Limited<sup>†</sup>

<sup>†</sup> *Held indirectly*

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 98(2) of the Banking Ordinance. Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its core capital and supplementary capital as determined in accordance with Part 3 of the Banking (Capital) Rules. Significant investments in non-subsidiary companies such as associates are deducted from the Bank's core capital and supplementary capital.

With respect to notes 21, 22b and 25, the principal subsidiaries that are not included in the consolidation for regulatory purpose are:

HSBC Insurance (Asia Pacific) Holdings Limited  
HSBC Securities Japan Limited  
Hang Seng Insurance Company Limited  
Hang Seng General Insurance (Hong Kong) Company Limited

The group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

**27. Statutory accounts**

The information in this news release is not audited and does not constitute statutory accounts.

Certain financial information in this document is extracted from the statutory accounts for the year ended 31 December 2008 which have been delivered to the Registrar of Companies and the HKMA. The Auditors expressed an unqualified opinion on those statutory accounts in their report dated 2 March 2009. The Annual Report and Accounts for The Hongkong and Shanghai Banking Corporation Limited for the year ended 31 December 2008, which include the statutory accounts, can be obtained on request from Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website: [www.hsbc.com.hk](http://www.hsbc.com.hk).