



The Hongkong and Shanghai Banking  
Corporation Limited

Supplementary Notes  
for the six months ended 30 June 2015

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[www.hsbc.com.hk](http://www.hsbc.com.hk) .

**Introduction**

The information contained in this document (the ‘Supplementary Notes’) is for The Hongkong and Shanghai Banking Corporation Limited (‘the Bank’) and its subsidiaries (together ‘the group’). It is supplementary to, and should be read in conjunction with, the Interim Report 2015 issued on 3 August 2015, 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.

References to ‘HSBC’, ‘the Group’ or ‘the HSBC Group’ within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People’s Republic of China is referred to as ‘Hong Kong’. The abbreviations ‘HK\$m’ and ‘HK\$bn’ represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

While the Supplementary Notes are not required to be externally audited, the document has been verified internally in accordance with the group’s policies on disclosure and its financial reporting and governance processes.

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**1. Basis of preparation**

**a.** Except where indicated otherwise, the financial information contained in these Supplementary Notes has been prepared on a consolidated basis. The basis of consolidation for accounting purposes is different from that for regulatory purposes. Further information regarding subsidiaries that are not included in the consolidation for regulatory purposes, which affects certain notes, is set out in note 25.

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**b.** The accounting policies applied in preparing these Supplementary Notes are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2014, as set out in note 3 on the financial statements in the Bank’s *Annual Report and Accounts 2014*.

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**c.** Certain comparative figures have not been provided where the current year is the first year of disclosure and provision is impracticable.

**2. Net interest income**

	<b>Half-year ended 30 June 2015 HK\$m</b>	Half-year ended 30 June 2014 HK\$m
Net interest income includes the following:		
- interest income accrued on impaired financial assets	<u>130</u>	<u>148</u>

**3. Net fee income**

	<b>Half-year ended 30 June 2015 HK\$m</b>	Half-year ended 30 June 2014 HK\$m
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	8,212	7,594
- fee expense	<u>(820)</u>	<u>(899)</u>
	<u>7,392</u>	<u>6,695</u>
Net fee income arising from trust and other fiduciary activities where the group holds or invests assets on behalf of its customers		
- fee income	4,673	4,189
- fee expense	<u>(509)</u>	<u>(473)</u>
	<u>4,164</u>	<u>3,716</u>

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

	<b>Half-year ended 30 June 2015 HK\$m</b>	Half-year ended 30 June 2014 HK\$m
Loans and receivables	<u>181</u>	<u>174</u>

There were no gains or losses on held-to-maturity investments or financial liabilities measured at amortised cost for the half-years ended 30 June 2015 and 30 June 2014.

**5. Dividend income**

	<b>Half-year ended 30 June 2015 HK\$m</b>	Half-year ended 30 June 2014 HK\$m
Listed investments	126	6
Unlisted investments	<u>52</u>	<u>149</u>
	<b><u>178</u></b>	<b><u>155</u></b>

**6. Cash and sight balances at central banks**

	<b>At 30 June 2015 HK\$m</b>	At 31 December 2014 HK\$m
Cash in hand	15,791	16,223
Sight balances with central banks	<u>241,938</u>	<u>140,252</u>
	<b><u>257,729</u></b>	<b><u>156,475</u></b>

At 30 June 2015, the total amount placed with central banks, included within cash and sight balances at central banks, reverse repurchase agreements - non-trading, and placings with and advances to banks, amounted to HK\$395,314m (31 December 2014: HK\$277,377m).

**7. Placings with and advances to banks**

	<b>At 30 June 2015 HK\$m</b>	At 31 December 2014 HK\$m
Gross placings with and advances to banks		
– maturing within one month	341,606	305,527
– maturing after one month but within one year	142,252	145,412
– maturing after one year	<u>29,968</u>	<u>37,374</u>
	<b><u>513,826</u></b>	<b><u>488,313</u></b>

There were no significant overdue, impaired or rescheduled placings with and advances to banks at 30 June 2015 and 31 December 2014.

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

The following analysis of the group's loans and advances to customers is based on the categories contained in the 'Quarterly Analysis of Loans and Advances and Provisions – (MA(BS)2A)' return required to be submitted to the HKMA by branches of the Bank and by banking subsidiaries in Hong Kong.

	Gross Advances		Collateral and other security	
	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Gross loans and advances to customers for use in Hong Kong				
<i>Industrial, commercial and financial</i>				
Property development	101,230	90,524	32,907	24,370
Property investment	235,223	240,221	182,500	187,070
Financial concerns	39,377	39,510	17,916	19,944
Stockbrokers	13,561	7,527	131	1,773
Wholesale and retail trade	92,667	106,875	25,447	29,165
Manufacturing	40,621	50,755	13,542	13,523
Transport and transport equipment	42,254	47,046	25,644	23,748
Recreational activities	820	415	331	284
Information technology	9,644	10,125	1,832	1,892
Others	128,035	112,466	42,817	38,285
	<b>703,432</b>	<b>705,464</b>	<b>343,067</b>	<b>340,054</b>
<i>Individuals</i>				
Advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	27,121	26,671	27,121	26,671
Advances for the purchase of other residential properties	396,984	378,992	396,984	378,992
Credit card advances	50,920	53,499	–	–
Others	69,634	64,523	34,490	31,547
	<b>544,659</b>	<b>523,685</b>	<b>458,595</b>	<b>437,210</b>
Gross loans and advances to customers for use in Hong Kong	1,248,091	1,229,149	801,662	777,264
Trade finance	168,286	161,250	35,581	32,260
Gross loans and advances to customers for use outside Hong Kong	1,475,457	1,435,337	516,319	522,027
Gross loans and advances to customers	<b>2,891,834</b>	<b>2,825,736</b>	<b>1,353,562</b>	<b>1,331,551</b>

**8. Loans and advances to customers (continued)****b. Impairment allowances on loans and advances to customers**

Impaired loans and advances to customers are those loans and advances where objective evidence exists that full repayment of principal or interest is considered unlikely. Individually assessed allowances are made after taking into account the value of collateral, in respect of such loans and advances.

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

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Total HK\$m
<b>At 30 June 2015</b>			
<b>Gross loans and advances to customers</b>			
Individually assessed impaired gross loans and advances	5,574	9,749	15,323
<b>Collectively assessed</b>	<b>1,725,500</b>	<b>1,151,011</b>	<b>2,876,511</b>
Impaired loans and advances	652	700	1,352
Non-impaired loans and advances	1,724,848	1,150,311	2,875,159
Total gross loans and advances to customers	1,731,074	1,160,760	2,891,834
<b>Impairment allowances</b>	<b>(4,260)</b>	<b>(6,577)</b>	<b>(10,837)</b>
Individually assessed	(2,146)	(4,444)	(6,590)
Collectively assessed	(2,114)	(2,133)	(4,247)
Net loans and advances	1,726,814	1,154,183	2,880,997
Fair value of collateral which has been taken into account in respect of individually assessed impaired loan and advances to customers	2,098	3,751	5,849
Individually assessed impaired gross loans and advances as a percentage of gross loans and advances to customers	0.3%	0.8%	0.5%
Total allowances as a percentage of total gross loans and advances	0.2%	0.6%	0.4%
<b>At 31 December 2014</b>			
<b>Gross loans and advances to customers</b>			
Individually assessed impaired gross loans and advances	5,297	9,218	14,515
<b>Collectively assessed</b>	<b>1,655,500</b>	<b>1,155,721</b>	<b>2,811,221</b>
Impaired loans and advances	602	770	1,372
Non-impaired loans and advances	1,654,898	1,154,951	2,809,849
Total gross loans and advances to customers	1,660,797	1,164,939	2,825,736
<b>Impairment allowances</b>	<b>(4,514)</b>	<b>(6,006)</b>	<b>(10,520)</b>
Individually assessed	(2,411)	(3,888)	(6,299)
Collectively assessed	(2,103)	(2,118)	(4,221)
Net loans and advances	1,656,283	1,158,933	2,815,216
Fair value of collateral which has been taken into account in respect of individually assessed impaired loan and advances to customers	1,767	3,373	5,140
Individually assessed impaired gross loans and advances as a percentage of gross loans and advances to customers	0.3%	0.8%	0.5%
Total allowances as a percentage of total gross loans and advances	0.3%	0.5%	0.4%

**8. Loans and advances to customers** *(continued)***b. Impairment allowances on loans and advances to customers** *(continued)*

For individually assessed customer loans and advances where the industry sector comprises not less than 10% of total gross loans and advances to customers, the analysis of gross impaired loans and advances and allowances by major industry sectors based on categories and definitions used by the HSBC Group is as follows:

	<b>Total gross loans and advances HK\$m</b>	<b>Gross impaired advances HK\$m</b>	<b>Individually assessed allowances HK\$m</b>	<b>Collectively assessed allowances HK\$m</b>
<b>At 30 June 2015</b>				
Residential mortgages	737,817	2,035	(248)	(85)
Commercial, industrial and international trade	870,429	7,557	(4,471)	(2,152)
Other property-related lending	306,352	997	(361)	(187)
Other commercial	295,228	3,621	(1,145)	(241)
<b>At 31 December 2014</b>				
Residential mortgages	722,493	2,030	(288)	(70)
Commercial, industrial and international trade	857,726	6,951	(3,820)	(2,182)
Other property-related lending	266,660	674	(271)	(152)
Other commercial	302,244	3,756	(1,470)	(211)

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



**8. Loans and advances to customers** *(continued)***c. Overdue and rescheduled loans and advances to customers**

	Hong Kong		Rest of Asia-Pacific		Total	
	HK\$m	% <sup>1</sup>	HK\$m	% <sup>1</sup>	HK\$m	% <sup>1</sup>
<b>At 30 June 2015</b>						
Gross amounts which have been overdue with respect to either principal or interest for						
– more than three months but less than six months	1,638	0.1	1,554	0.1	3,192	0.1
– more than six months but less than one year	619	0.0	2,142	0.2	2,761	0.1
– more than one year	2,074	0.1	2,102	0.2	4,176	0.2
	<b>4,331</b>	<b>0.2</b>	<b>5,798</b>	<b>0.5</b>	<b>10,129</b>	<b>0.4</b>
Individually assessed impairment allowances made in respect of amounts overdue	(1,657)		(3,164)		(4,821)	
Fair value of collateral held in respect of amounts overdue	1,248		1,662		2,910	
Rescheduled loans and advances to customers	614	0.0	2,110	0.2	2,724	0.1
<b>At 31 December 2014</b>						
Gross amounts which have been overdue with respect to either principal or interest for						
– more than three months but less than six months	624	0.0	2,023	0.2	2,647	0.1
– more than six months but less than one year	452	0.0	764	0.1	1,216	0.0
– more than one year	2,024	0.1	2,185	0.2	4,209	0.2
	<b>3,100</b>	<b>0.1</b>	<b>4,972</b>	<b>0.5</b>	<b>8,072</b>	<b>0.3</b>
Individually assessed impairment allowances made in respect of amounts overdue	(1,235)		(2,265)		(3,500)	
Fair value of collateral held in respect of amounts overdue	1,144		1,805		2,949	
Rescheduled loans and advances to customers	431	0.0	2,298	0.2	2,729	0.1

<sup>1</sup> Percentages shown are of gross loans and advances to customers.

**8. Loans and advances to customers** *(continued)***c. Overdue and rescheduled loans and advances to customers** *(continued)*

Rescheduled loans and advances to customers are those loans and 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 loans and advances to customers are stated net of any loans and advances which have subsequently become overdue for more than three months and which are included in 'Overdue loans and advances to customers'.

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

The geographical information shown below has been classified by the location of counterparties, after taking into account recognised risk transfer.

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Other HK\$m	Total HK\$m
<b>At 30 June 2015</b>				
Gross loans and advances to customers	<u>1,388,644</u>	<u>1,252,848</u>	<u>250,342</u>	<u>2,891,834</u>
<b>At 31 December 2014</b>				
Gross loans and advances to customers	<u>1,336,446</u>	<u>1,256,404</u>	<u>232,886</u>	<u>2,825,736</u>

**e. Collateral**

The most common method of mitigating credit risk is to take collateral. Collateral disclosed in notes 8a, 8b and 8c includes any tangible security that has a determinable 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 has been included.

## 9. Mainland activities

The analysis of mainland activities 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's 'Return of Mainland Activities - (MA(BS)20)', which includes the mainland exposures extended by the Bank's Hong Kong offices, mainland China branches and wholly owned banking subsidiaries in mainland China.

The comparatives have been restated due to revised interpretation of HKMA requirement.

	On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	Total exposures HK\$m
<b>At 30 June 2015</b>			
<b>Types of Counterparties</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	260,237	9,494	269,731
2. Local governments, local government-owned entities and their subsidiaries and JVs	56,369	4,978	61,347
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	242,039	23,699	265,738
4. Other entities of central government not reported in item 1 above	4,342	643	4,985
5. Other entities of local governments not reported in item 2 above	1,391	67	1,458
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	83,903	11,551	95,454
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	54,064	3,732	57,796
<b>Total</b>	<b>702,345</b>	<b>54,164</b>	<b>756,509</b>
Total assets after provision	4,096,976		
On-balance sheet exposures as percentages of total assets	17.14%		
<b>At 31 December 2014 (restated)</b>			
<b>Types of Counterparties</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	263,489	9,714	273,203
2. Local governments, local government-owned entities and their subsidiaries and JVs	66,103	6,009	72,112
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	209,951	22,896	232,847
4. Other entities of central government not reported in item 1 above	5,250	2,664	7,914
5. Other entities of local governments not reported in item 2 above	1,091	2	1,093
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	76,295	11,214	87,509
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	55,251	2,050	57,301
<b>Total</b>	<b>677,430</b>	<b>54,549</b>	<b>731,979</b>
Total assets after provision	3,908,505		
On-balance sheet exposures as percentages of total assets	17.33%		

**10. International claims**

The group's country risk exposures in the table below are prepared in accordance with the HKMA's 'Return of International Banking Statistics - (MA(BS)21)' guidelines. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the group's total international claims.

Comparative figures for 2014 have not been provided as the current year is the first year of disclosure.

	<b>Banks HK\$m</b>	<b>Official Sector HK\$m</b>	<b>Non-bank financial institutions HK\$m</b>	<b>Non- financial private sector HK\$m</b>	<b>Others HK\$m</b>	<b>Total HK\$m</b>
<b>At 30 June 2015</b>						
<b>Developed countries</b>	<b>419,711</b>	<b>311,814</b>	<b>167,366</b>	<b>203,644</b>	<b>-</b>	<b>1,102,535</b>
<b>Offshore centres</b>	<b>90,919</b>	<b>18,063</b>	<b>62,269</b>	<b>446,685</b>	<b>641</b>	<b>618,577</b>
of which: Hong Kong SAR	23,388	4,176	27,769	234,952	637	290,922
<b>Developing Asia - Pacific</b>	<b>469,510</b>	<b>85,903</b>	<b>47,542</b>	<b>425,247</b>	<b>182</b>	<b>1,028,384</b>
of which: China	351,845	45,821	23,688	223,429	122	644,905

**11. Financial investments**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Treasury and other eligible bills – available-for-sale	622,040	544,536
Debt securities, excluding certificates of deposits – held-to-maturity	199,178	169,277
– available-for-sale	619,002	595,378
Certificates of deposit – held-to-maturity	13,031	13,349
– available-for-sale	86,569	84,822
Equity shares – available-for-sale	10,137	49,131
	<u>1,549,957</u>	<u>1,456,493</u>

There were no overdue debt securities at 30 June 2015 and 31 December 2014.

**12. Interests in associates**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Interests in associates	<u>119,456</u>	<u>116,134</u>

**13. Property, plant and equipment**

	Land and buildings HK\$m	Investment properties HK\$m	Equipment HK\$m	Total HK\$m
<b>Cost or valuation</b>				
At 1 January 2015	86,753	12,784	23,826	123,363
Exchange and other adjustments	(89)	–	(179)	(268)
Additions	104	699	1,050	1,853
Disposals	–	–	(512)	(512)
Elimination of accumulated depreciation on revalued land and buildings	(1,177)	–	–	(1,177)
Surplus on revaluation	3,889	261	–	4,150
Reclassifications	2,596	(2,748)	–	(152)
At 30 June 2015	<u>92,076</u>	<u>10,996</u>	<u>24,185</u>	<u>127,257</u>
<b>Accumulated depreciation</b>				
At 1 January 2015	74	–	18,610	18,684
Exchange and other adjustments	99	–	(143)	(44)
Charge for the period	1,216	–	949	2,165
Disposals	–	–	(492)	(492)
Elimination of accumulated depreciation on revalued land and buildings	(1,177)	–	–	(1,177)
At 30 June 2015	<u>212</u>	<u>–</u>	<u>18,924</u>	<u>19,136</u>
<b>Net book value at 30 June 2015</b>	<u>91,864</u>	<u>10,996</u>	<u>5,261</u>	<u>108,121</u>
Net book value at 31 December 2014	<u>86,679</u>	<u>12,784</u>	<u>5,216</u>	<u>104,679</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).

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Repossessed assets	<u>107</u>	<u>109</u>

There were no significant overdue other assets at 30 June 2015 and 31 December 2014.

**15. Trading liabilities**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Certificates of deposit in issue	2,141	3,470
Other debt securities in issue	21,397	19,418
Short positions in securities	79,447	66,063
Deposits by banks	21,130	6,301
Customer accounts	127,947	120,560
	<u>252,062</u>	<u>215,812</u>

**16. Financial liabilities designated at fair value**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Deposits by banks	191	196
Debt securities in issue	15,079	11,973
Liabilities to customers under investment contracts	36,849	36,665
	<u>52,119</u>	<u>48,834</u>

**17. Debt securities in issue**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Certificates of deposit	6,355	7,530
Other debt securities	36,401	37,767
	<u>42,756</u>	<u>45,297</u>

The above debt securities in issue are carried at amortised cost.

**18. 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 Bank and the group for the development and expansion of its business.

		At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
<i>Bank</i>			
US\$1,200m	Undated floating rate primary capital notes	9,324	9,337
<i>Group</i>			
AUD200m	Floating rate subordinated notes due 2020, callable from 2015	1,196	1,271
MYR500m	Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017 <sup>1</sup>	1,027	1,108
MYR500m	Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022 <sup>2</sup>	1,036	1,116
		<u>12,583</u>	<u>12,832</u>

1 The interest rate on the MYR500m 4.35% callable subordinated bonds due 2022 will increase by 1% from June 2017.

2 The interest rate on the MYR500m 5.05% callable subordinated bonds due 2027 will increase by 1% from November 2022.



**19. Off-balance sheet exposures other than derivative transactions**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
<b>Contingent liabilities and commitments</b>		
Direct credit substitutes	69,942	68,422
Transaction-related contingencies	146,966	142,811
Trade-related contingencies	107,458	107,766
Forward asset purchases	3,009	2,329
Forward forward deposits placed	2,345	435
Commitments that are unconditionally cancellable without prior notice	1,699,997	1,605,529
Commitments which have an original maturity of not more than one year	55,786	62,886
Commitments which have an original maturity of more than one year	166,409	173,829
	<u>2,251,912</u>	<u>2,164,007</u>
<b>Risk-weighted amounts</b>	<u>245,533</u>	<u>236,299</u>

The table above gives the nominal contract amounts and risk-weighted amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by the group. The return is prepared on a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in 'Other assets' in accordance with HKAS 39 'Financial Instruments: Recognition and Measurement'. For the purposes 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 mainly credit-related instruments which include non-financial guarantees and commitments to extend credit. Contractual amounts represent the amounts at risk should contracts be fully drawn upon and clients default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contractual amounts is not representative of expected future liquidity requirements.

**20. Derivative transactions****a. Contract amounts of derivative transactions**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Exchange rate	16,810,641	14,925,265
Interest rate	17,459,896	18,467,764
Credit	341,534	259,298
Equity, commodity and other	1,361,947	1,218,703
	<u>35,974,018</u>	<u>34,871,030</u>

The notional contract amounts of derivatives held indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

**20. Derivative transactions** *(continued)***b. Risk exposures to derivative transactions**

	<b>Contract amount HK\$m</b>	<b>Risk- weighted amount HK\$m</b>	<b>Fair value HK\$m</b>
<b>At 30 June 2015</b>			
Exchange rate	14,160,875	77,696	81,899
Interest rate	11,409,517	24,438	27,323
Credit derivative	340,037	2,323	532
Equity, commodity and other	1,025,197	9,556	21,680
	<u>26,935,626</u>	<u>114,013</u>	<u>131,434</u>
<b>At 31 December 2014</b>			
Exchange rate	13,061,220	79,506	92,114
Interest rate	11,771,684	26,515	24,421
Credit derivative	262,200	1,434	246
Equity, commodity and other	881,633	9,803	15,590
	<u>25,976,737</u>	<u>117,258</u>	<u>132,371</u>

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 requirements of section 3C(1) of the Banking (Capital) Rules.

Fair value is a close approximation of the credit risk for these contracts at the balance sheet date. Credit risk for risk-weighting is measured as the sum of positive fair values and an estimate for the future fluctuation risk, using a future risk factor. Fair value is calculated after taking into account the effect of valid bilateral netting agreements amounting to HK\$227,766m at 30 June 2015 (31 December 2014: HK\$244,305m).

The netting benefits 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 amounts for the capital adequacy ratio.

## 21. Foreign exchange exposure

Foreign exchange exposures may be divided broadly into two categories: structural and non-structural. Structural foreign exchange exposures represent net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than the HK dollar. An entity's functional currency is that of the primary economic environment in which the entity operates. 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's foreign exchange exposures in the tables below are prepared in accordance with the HKMA return 'Foreign Currency Position Return - (MA(BS)6)'.

The group had the following net structural foreign currency exposures that were not less than 10% of total net structural foreign currency positions:

	Net structural position	
	LCYm	HK\$m
<b>At 30 June 2015</b>		
Renminbi	<b>146,544</b>	<b>183,202</b>
<b>At 31 December 2014</b>		
Renminbi	158,785	198,584

The group had the following non-structural foreign currency positions that were not less than 10% of the net non-structural positions in all foreign currencies in either year:

	United States dollars HK\$m	Singapore dollars HK\$m	Brunei dollars HK\$m	Renminbi HK\$m
<b>As 30 June 2015</b>				
Spot assets	1,754,832	251,585	12,689	687,262
Spot liabilities	(1,893,804)	(209,985)	(19,443)	(680,064)
Forward purchases	8,508,665	302,298	150	2,574,725
Forward sales	(8,376,999)	(337,373)	(55)	(2,564,212)
Net options positions	15,746	(146)	–	(12,419)
<b>Net long/(net short) position</b>	<b>8,440</b>	<b>6,379</b>	<b>(6,659)</b>	<b>5,292</b>
<b>As 31 December 2014</b>				
Spot assets	1,743,998	296,573	15,535	728,481
Spot liabilities	(1,892,847)	(241,818)	(19,643)	(698,814)
Forward purchases	8,154,446	333,035	243	2,262,230
Forward sales	(7,978,516)	(384,261)	(111)	(2,286,303)
Net options positions	10,047	10	–	(6,641)
<b>Net long/(net short) position</b>	<b>37,128</b>	<b>3,539</b>	<b>(3,976)</b>	<b>(1,047)</b>

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

## 22. Liquidity information

The group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its Liquidity Coverage Ratio ('LCR') on a consolidated basis, under the Basel III LCR standard which came into effect from 1 January 2015. During the year of 2015, the group is required to maintain an LCR of not less than 60%, increasing to not less than 100% by January 2019. The average LCR for the period are as follows:

	<b>Quarter ended 30 June 2015 %</b>	<b>Quarter ended 31 March 2015 %</b>
Average Liquidity Coverage Ratio	<u>142.5</u>	<u>137.4</u>

The liquidity position of the group remained strong in the first half of 2015. The average LCR increased by 5.1% from 137.4% for the quarter ending on 31 March 2015 to 142.5% for the quarter ending on 30 June 2015 as the growth in customer deposits exceeded the increase in loans and advances to customers, the surplus of which was deployed into high quality liquid assets ('HQLA').

The majority of HQLA held by the group are Level 1 assets, which consist mainly of government debt securities.

	<b>Weighted amount (Average value)</b>	
	<b>Quarter ended 30 June 2015 HK\$m</b>	<b>Quarter ended 31 March 2015 HK\$m</b>
Level 1 assets	1,368,320	1,324,230
Level 2A assets	41,658	35,956
Level 2B assets	7,992	7,314
Total weighted amount of HQLA	<u>1,417,970</u>	<u>1,367,500</u>

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We also issue wholesale securities (secured or unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

The group allows currency mismatches to provide some flexibility in managing the balance sheet structure and to carry out foreign exchange trading, on the basis that there is sufficient liquidity in the swap market to support currency conversion in periods of stress. The group sets limits on cash flow projection for all material currencies based on liquidity in the swap markets. These limits are approved and monitored by Asset and Liability Management Committee.

**22. Liquidity information** *(continued)*

Most of the group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant Credit Support Annex ('CSA') contracts), the additional collateral required to post in the event of a three-notch downgrade in credit ratings is immaterial.

Information relating to the Bank's approach to liquidity risk management and its interaction with the HSBC Group's Asset, Liability and Capital Management function can be found in the Risk Report of the Bank's *Annual Report and Accounts 2014*.

Further details of the group's liquidity information disclosures are set out in Appendix 3 'Liquidity Coverage Ratio Standard Disclosure Template' of the Supplementary Notes Appendices, which is available in the Regulatory disclosure section of our website: [www.hsbc.com.hk](http://www.hsbc.com.hk).

**23. Leverage ratio**

The group is required under rule 24A(6) of the Banking (Disclosure) Rules to disclose its Leverage Ratio calculated on a consolidated basis.

	At 30 June 2015 %	At 31 December 2014 %
Leverage ratio	<u>6.1</u>	<u>6.0</u>
<i>Capital and leverage ratio exposure measure</i>		
	HK\$m	HK\$m
Tier 1 capital	416,611	389,745
Total exposure measure	6,793,123	6,490,577

There were no material changes in the leverage ratio from 31 December 2014 to 30 June 2015.

Further details regarding the group's leverage positions are set out in Appendix 4 'Leverage Ratio Common Disclosure Template' and Appendix 5 'Leverage Ratio Summary Comparison Table' of the Supplementary Notes Appendices, which is available in the Regulatory disclosure section of our website: [www.hsbc.com.hk](http://www.hsbc.com.hk).

## 24. Capital instruments

The following is a summary of the group's common equity tier 1 ('CET1') capital, additional tier 1 ('AT1') capital and tier 2 capital instruments.

	At 30 June 2015	
	Issued/par value	Amount recognised in regulatory capital HK\$m
<b>CET1 capital instruments</b>		
Ordinary shares:		
38,420,982,901 issued and fully paid ordinary shares	HK\$96,052m	<u>94,598</u>
<b>AT1 capital instruments</b>		
Floating rate perpetual subordinated loans, callable from 2019	US\$1,900m	14,737
Perpetual non-cumulative preference shares	US\$3,253m	<u>25,218</u>
<b>Tier 2 capital instruments</b>		
Perpetual cumulative preference shares	US\$400m	<u>3,101</u>
Cumulative preference shares due 2024	US\$1,050m	<u>8,140</u>
Primary capital undated floating rate notes	US\$1,200m	<u>9,324</u>
Subordinated loan due 2021	US\$450m	3,488
Subordinated loan due 2022	US\$300m	2,326
Subordinated loan due 2023	US\$500m	3,876
Subordinated loan due 2024, callable from 2019	US\$1,600m	12,404
Floating rate subordinated notes due 2020, callable from 2015	AUD200m	1,053
Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017	MYR500m	931
Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022	MYR500m	<u>940</u>
		<u>25,018</u>
At 31 December 2014		
	Issued/par value	Amount recognised in regulatory capital HK\$m
<b>CET1 capital instruments</b>		
Ordinary shares:		
38,420,982,901 issued and fully paid ordinary shares	HK\$96,052m	<u>94,598</u>
<b>AT1 capital instruments</b>		
Floating rate perpetual subordinated loans, callable from 2019	US\$1,900m	14,737
Perpetual non-cumulative preference shares	US\$3,253m	<u>25,229</u>
<b>Tier 2 capital instruments</b>		
Perpetual cumulative preference shares	US\$400m	<u>3,102</u>
Cumulative preference shares due 2024	US\$1,050m	<u>8,143</u>
Primary capital undated floating rate notes	US\$1,200m	<u>9,337</u>
Subordinated loan due 2021	US\$450m	3,490
Subordinated loan due 2022	US\$300m	2,326
Subordinated loan due 2023	US\$500m	3,878
Subordinated loan due 2024, callable from 2019	US\$1,600m	12,409
Floating rate subordinated notes due 2020, callable from 2015	AUD200m	1,178
Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017	MYR500m	1,056
Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022	MYR500m	<u>1,063</u>
		<u>25,400</u>

A description of the main features and the full terms and conditions of the group's capital instruments can be found in the Regulatory disclosure section of our website [www.hsb.com.hk](http://www.hsb.com.hk).

## 25. Basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ('HKFRS'), as described in note 1 on the financial statements in the Bank's *Annual Report and Accounts 2014*.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Banking (Capital) Rules. 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 capital invested by the group in these subsidiaries is deducted from the capital base as determined in accordance with Part 3 of the Banking (Capital) Rules.

A list of these subsidiaries is shown below:

	Principal activity	At 30 June 2015		At 31 December 2014	
		Total assets HK\$m	Total equity HK\$m	Total assets HK\$m	Total equity HK\$m
HSBC Broking Futures (Hong Kong) Ltd	Futures broking	3,441	468	2,699	464
HSBC Broking Services (Asia) Ltd and its subsidiaries	Broking services	21,066	2,962	16,698	2,694
HSBC Global Asset Management Holdings (Bahamas) Ltd	Asset management	124	124	125	124
HSBC Global Asset Management (Hong Kong) Ltd	Asset management	582	354	658	402
HSBC Investment Funds (Hong Kong) Ltd	Asset management	396	177	266	113
HSBC Global Asset Management (Japan) K.K.	Asset management	168	96	161	75
HSBC Global Asset Management (Singapore) Ltd	Asset management	115	86	124	86
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	Insurance	301,590	22,573	284,555	21,485
HSBC InvestDirect (India) Ltd and its subsidiaries	Financial services	648	502	676	485
HSBC Securities (Asia) Ltd and its subsidiaries	Broking services	432	421	431	420
HSBC Securities (Japan) Ltd	Broking services	100,282	1,194	86,246	1,198
HSBC Securities (Singapore) Pte Ltd	Broking services	475	29	114	31
HSBC Securities Brokers (Asia) Ltd	Broking services	22,158	4,150	16,677	3,958
Hang Seng (Nominee) Ltd <sup>1</sup>	Nominee services	n/a	n/a	–	–
Hang Seng Bank (Trustee) Ltd <sup>1</sup>	Trustee services	n/a	n/a	5	3
Hang Seng Futures Ltd	Futures broking	103	102	103	102
Hang Seng Insurance Co. Ltd and its subsidiaries	Insurance	108,225	10,041	103,945	10,170
Hang Seng Investment Management Ltd	Asset management	767	721	870	557
Hang Seng Investment Services Ltd	Investment services	9	9	9	9
Hang Seng Securities Ltd	Broking services	7,568	1,517	4,462	1,329

<sup>1</sup> With effective from 1 January 2015, these entities are included in consolidation for regulatory purposes.

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**25. Basis of consolidation** (*continued*)

For insurance entities, the figures shown above exclude deferred acquisition cost assets as these are derecognised for consolidation purposes due to the recognition of the present value of in-force long-term insurance business ('PVIF') on long-term insurance contracts and investment contracts with discretionary participation features at group level. The PVIF asset of HK\$34,421m (31 December 2014: HK\$32,389m) and the related deferred tax liability, however, are recognised at the consolidated group level only, and are therefore also not included in the asset or equity positions for the standalone entities shown above.

There are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but where the method of consolidation differs at 30 June 2015 and 31 December 2014.

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation at 30 June 2015 and 31 December 2014.

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.

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**26. Statutory accounts**

The information in this document 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 2014 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 23 February 2015. The *Annual Report and Accounts* for The Hongkong and Shanghai Banking Corporation Limited for the year ended 31 December 2014, which include the statutory accounts, can be obtained on request from 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) .