



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 .

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. 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.

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.

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*.

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

| | Half-year ended 30 June 2015 HK\$m | 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

| | Half-year ended 30 June 2015 HK\$m | 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

| | Half-year ended 30 June 2015 HK\$m | 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

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

6. Cash and sight balances at central banks

| | At 30 June 2015 HK\$m | 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> |
| | <u>257,729</u> | <u>156,475</u> |

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

| | At 30 June 2015 HK\$m | 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> |
| | <u>513,826</u> | <u>488,313</u> |

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 |
| | 703,432 | 705,464 | 343,067 | 340,054 |
| <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 |
| | 544,659 | 523,685 | 458,595 | 437,210 |
| 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 | 2,891,834 | 2,825,736 | 1,353,562 | 1,331,551 |

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 |
|--|--------------------|----------------------------------|------------------|
| At 30 June 2015 | | | |
| Gross loans and advances to customers | | | |
| Individually assessed impaired gross loans and advances | 5,574 | 9,749 | 15,323 |
| Collectively assessed | 1,725,500 | 1,151,011 | 2,876,511 |
| 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 | <u>1,731,074</u> | <u>1,160,760</u> | <u>2,891,834</u> |
| Impairment allowances | (4,260) | (6,577) | (10,837) |
| Individually assessed | (2,146) | (4,444) | (6,590) |
| Collectively assessed | (2,114) | (2,133) | (4,247) |
| Net loans and advances | <u>1,726,814</u> | <u>1,154,183</u> | <u>2,880,997</u> |
| 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% |
| At 31 December 2014 | | | |
| Gross loans and advances to customers | | | |
| Individually assessed impaired gross loans and advances | 5,297 | 9,218 | 14,515 |
| Collectively assessed | 1,655,500 | 1,155,721 | 2,811,221 |
| 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 | <u>1,660,797</u> | <u>1,164,939</u> | <u>2,825,736</u> |
| Impairment allowances | (4,514) | (6,006) | (10,520) |
| Individually assessed | (2,411) | (3,888) | (6,299) |
| Collectively assessed | (2,103) | (2,118) | (4,221) |
| Net loans and advances | <u>1,656,283</u> | <u>1,158,933</u> | <u>2,815,216</u> |
| 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:

| | Total gross loans and advances HK\$m | Gross impaired advances HK\$m | Individually assessed allowances HK\$m | Collectively assessed allowances HK\$m |
|--|---|--|---|---|
| At 30 June 2015 | | | | |
| 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) |
| At 31 December 2014 | | | | |
| 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 | % ¹ | HK\$m | % ¹ | HK\$m | % ¹ |
| At 30 June 2015 | | | | | | |
| 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 |
| | 4,331 | 0.2 | 5,798 | 0.5 | 10,129 | 0.4 |
| 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 |
| At 31 December 2014 | | | | | | |
| 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 |
| | 3,100 | 0.1 | 4,972 | 0.5 | 8,072 | 0.3 |
| 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 |

¹ 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 |
|---------------------------------------|--------------------|----------------------------------|----------------|------------------|
| At 30 June 2015 | | | | |
| 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> |
| At 31 December 2014 | | | | |
| 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 |
|--|---------------------------------------|---|-----------------------------|
| At 30 June 2015 | | | |
| Types of Counterparties | | | |
| 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 |
| Total | 702,345 | 54,164 | 756,509 |
| Total assets after provision | 4,096,976 | | |
| On-balance sheet exposures as percentages of total assets | 17.14% | | |
| At 31 December 2014 (restated) | | | |
| Types of Counterparties | | | |
| 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 |
| Total | 677,430 | 54,549 | 731,979 |
| 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.

| | Banks HK\$m | Official Sector HK\$m | Non-bank financial institutions HK\$m | Non- financial private sector HK\$m | Others HK\$m | Total HK\$m |
|----------------------------------|------------------------|--------------------------------------|--|--|-------------------------|------------------------|
| At 30 June 2015 | | | | | | |
| Developed countries | 419,711 | 311,814 | 167,366 | 203,644 | – | 1,102,535 |
| Offshore centres | 90,919 | 18,063 | 62,269 | 446,685 | 641 | 618,577 |
| of which: Hong Kong SAR | 23,388 | 4,176 | 27,769 | 234,952 | 637 | 290,922 |
| Developing Asia - Pacific | 469,510 | 85,903 | 47,542 | 425,247 | 182 | 1,028,384 |
| 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 |
|---|--------------------------------|-----------------------------------|--------------------|----------------|
| Cost or valuation | | | | |
| 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> |
| Accumulated depreciation | | | | |
| 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> |
| Net book value at 30 June 2015 | <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 ¹ | 1,027 | 1,108 |
| MYR500m | Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022 ² | 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 |
|---|--------------------------------|------------------------------------|
| Contingent liabilities and commitments | | |
| 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> |
| Risk-weighted amounts | <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**

| | Contract amount HK\$m | Risk- weighted amount HK\$m | Fair value HK\$m |
|-----------------------------|--------------------------------------|--|-----------------------------|
| At 30 June 2015 | | | |
| 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> |
| At 31 December 2014 | | | |
| 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 |
| At 30 June 2015 | | |
| Renminbi | 146,544 | 183,202 |
| At 31 December 2014 | | |
| 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 |
|--------------------------------------|--------------------------------|----------------------------|-------------------------|-------------------|
| As 30 June 2015 | | | | |
| 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) |
| Net long/(net short) position | 8,440 | 6,379 | (6,659) | 5,292 |
| As 31 December 2014 | | | | |
| 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) |
| Net long/(net short) position | 37,128 | 3,539 | (3,976) | (1,047) |

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:

| | Quarter ended 30 June 2015 % | Quarter ended 31 March 2015 % |
|----------------------------------|---|--|
| 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.

| | Weighted amount (Average value) | |
|-------------------------------|---|--|
| | Quarter ended 30 June 2015 HK\$m | Quarter ended 31 March 2015 HK\$m |
| 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.

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 | 6.1 | 6.0 |
| <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.

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 |
| CET1 capital instruments | | |
| Ordinary shares: | | |
| 38,420,982,901 issued and fully paid ordinary shares | HK\$96,052m | <u>94,598</u> |
| AT1 capital instruments | | |
| 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> |
| Tier 2 capital instruments | | |
| 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 |
| CET1 capital instruments | | |
| Ordinary shares: | | |
| 38,420,982,901 issued and fully paid ordinary shares | HK\$96,052m | <u>94,598</u> |
| AT1 capital instruments | | |
| 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> |
| Tier 2 capital instruments | | |
| 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.

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 ¹ | Nominee services | n/a | n/a | – | – |
| Hang Seng Bank (Trustee) Ltd ¹ | 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 |

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

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.

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.