



The Hongkong and Shanghai Banking
Corporation Limited

Supplementary Notes Appendices
for the year ended 31 December 2014

Appendices

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Appendix 1: Transition Disclosures Template

The following table sets out the detailed composition of the group's regulatory capital using the Transition Disclosures Template as specified by the Hong Kong Monetary Authority ('HKMA'). The table also shows those items that are currently benefiting from the Basel III transitional arrangements, and are consequently subject to the pre-Basel III treatment, as set out in Schedule 4H to the Banking (Capital) Rules.

	At 31 December 2014		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre-Basel III treatment *	
	HK\$m	HK\$m	
Common equity tier 1 (CET1) capital: instruments and reserves			
1 Directly issued qualifying CET1 capital instruments plus any related share premium	94,598		(33)
2 Retained earnings	292,147		(39)+(43)
3 Disclosed reserves	104,800		(36)
4 Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable		
Public sector capital injections grandfathered until 1 January 2018	Not applicable		
5 Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidated group)	27,971		(44)
6 CET1 capital before regulatory deductions	519,516		
CET1 capital: regulatory deductions			
7 Valuation adjustments	2,030		(1)+(2)+(5)+(20)
8 Goodwill (net of associated deferred tax liability)	9,407		(9)+(12)+(15)+(26)
9 Other intangible assets (net of associated deferred tax liability)	5,276	–	(10)+(13)+(16)+(27)
10 Deferred tax assets net of deferred tax liabilities	1,485		(14)
11 Cash flow hedge reserve	(182)		(38)
12 Excess of total EL amount over total eligible provisions under the IRB approach	–	–	
13 Gain-on-sale arising from securitization transactions	–		
14 Gains and losses due to changes in own credit risk on fair valued liabilities	596	–	(19)+(21)+(22)+(24)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	89	–	(17)+(28)
16 Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	–	
17 Reciprocal cross-holdings in CET1 capital instruments	–	–	
18 Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
19 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	28,866	100,676	(4)+(6)+(8)+(11)+(18)-(48)-(49)
20 Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2014		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	
	HK\$m	HK\$m	
22 Amount exceeding the 15% threshold	Not applicable		
23 Of which significant investments in the common stock of financial sector entities	Not applicable		
24 Of which mortgage servicing rights	Not applicable		
25 Of which deferred tax assets arising from temporary differences	Not applicable		
26 National specific regulatory adjustments applied to CET1 capital	80,616		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	52,657		(37)+(42)
26b Regulatory reserve for general banking risks	27,959		(40)
27 Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	1,588		(51)-(50)
28 Total regulatory deductions to CET1 capital	129,771		
29 CET1 capital	389,745		
AT1 capital: instruments			
30 Qualifying AT1 capital instruments plus related share premium	14,737		(35)
31 Of which classified as equity under applicable accounting standards	14,737		(35)
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	25,229		(31)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	8,784		(45)+(46)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	5,389		(46)
36 AT1 capital before regulatory deductions	48,750		(50)
AT1 capital: regulatory deductions			
37 Investments in own AT1 capital instruments	–	–	
38 Reciprocal cross-holdings in AT1 capital instruments	–	–	
39 Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
40 Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	–	
41 National specific regulatory adjustments applied to AT1 capital	50,338		
41a Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	50,338		
vii Of which significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	50,338		(48)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43 Total regulatory deductions to AT1 capital	50,338		(51)
44 AT1 capital	–		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	389,745		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2014		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	Cross- referenced to **
	HK\$m	HK\$m	
Tier 2 capital : instruments and provisions			
46 Qualifying Tier 2 capital instruments plus any related share premium	18,613		(23)
47 Capital instruments subject to phase out arrangements from Tier 2 capital	24,072		(25)+(29)+ (32)
48 Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	6,810		(30)+(47)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	3,297		(30)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	14,957		(3)+(41)
51 Tier 2 capital before regulatory deductions	64,452		
Tier 2 capital : regulatory deductions			
52 Investments in own Tier 2 capital instruments	–	–	
53 Reciprocal cross-holdings in Tier 2 capital instruments	–	–	
54 Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
55 Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	3,172	–	(7)
56 National specific regulatory adjustments applied to Tier 2 capital	25,988		
56a Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(24,350)		[(34)+(37)+ (42)] x 45%
56b Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	50,338		
vii Of which significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	50,338		(49)
57 Total regulatory deductions to Tier 2 capital	29,160		
58 Tier 2 capital	35,292		
59 Total capital (Total capital = Tier 1 + Tier 2)	425,037		
60 Total risk weighted assets	2,707,931		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2014		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	
	HK\$m	HK\$m	
Capital ratios (as a percentage of risk weighted assets)			
61 CET1 capital ratio	14.39%		
62 Tier 1 capital ratio	14.39%		
63 Total capital ratio	15.70%		
64 Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.00%		
65 Of which capital conservation buffer requirement	0.00%		
66 Of which bank specific countercyclical buffer requirement	0.00%		
67 Of which G-SIB or D-SIB buffer requirement	0.00%		
68 CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	7.70%		
National minima (if different from Basel 3 minimum)			
69 National CET1 minimum ratio	Not applicable		
70 National Tier 1 minimum ratio	Not applicable		
71 National total capital minimum ratio	Not applicable		
Amounts below the thresholds for deduction (before risk weighting)			
72 Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	10,767		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	41,867		
74 Mortgage servicing rights (net of related tax liability)	Not applicable		
75 Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable		
Applicable caps on the inclusion of provisions in Tier 2 capital			
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardised (credit risk) approach (prior to application of cap)	3,992		
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	3,201		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	18,478		
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	11,756		
Capital instruments subject to phase-out arrangements			
80 Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable		
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable		
82 Current cap on AT1 capital instruments subject to phase out arrangements	41,256		
83 Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	—		
84 Current cap on Tier 2 capital instruments subject to phase out arrangements	39,252		
85 Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	—		

* This refers to the position under the Banking (Capital) Rules in force on 31 December 2012.

** Cross-referenced to Balance Sheet Reconciliation in Appendix 2b.

Appendix 1: Transition Disclosures Template *(continued)***Notes to the template**

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	At 31 December 2014	
		Hong Kong basis HK\$m	Basel III basis HK\$m
10	Deferred tax assets net of deferred tax liabilities	1,485	138

Explanation

As set out in paragraph 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), Deferred Tax Assets ('DTAs') that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for Mortgage Servicing Rights ('MSRs'), DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.

19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	129,542	127,872
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Explanation

For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

Remarks:

The amount of the 10%/15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2013		
	Component of	Amounts	Cross-
	regulatory capital	subject to pre- Basel III treatment *	referenced to **
	HK\$m	HK\$m	
Common equity tier 1 (CET1) capital: instruments and reserves			
1 Directly issued qualifying CET1 capital instruments plus any related share premium	83,865		(33)
2 Retained earnings	262,913		(38)+(42)
3 Disclosed reserves	89,751		(35)
4 Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable		
Public sector capital injections grandfathered until 1 January 2018	Not applicable		
5 Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidated group)	24,464		(43)
6 CET1 capital before regulatory deductions	460,993		
CET1 capital: regulatory deductions			
7 Valuation adjustments	2,473		(2)+(3)+(4)+(7)
8 Goodwill (net of associated deferred tax liability)	10,028		(11)+(14)+(17)+(26)
9 Other intangible assets (net of associated deferred tax liability)	5,915	–	(12)+(15)+(18)+(27)
10 Deferred tax assets net of deferred tax liabilities	2,350		(16)
11 Cash flow hedge reserve	197		(37)
12 Excess of total EL amount over total eligible provisions under the IRB approach	–	–	
13 Gain-on-sale arising from securitization transactions	–		
14 Gains and losses due to changes in own credit risk on fair valued liabilities	1,117	–	(20)+(21)+(22)+(24)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	110	–	(19)+(28)
16 Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	–	
17 Reciprocal cross-holdings in CET1 capital instruments	–	–	
18 Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
19 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	875	106,106	(1)+(6)+(8)+(10)+(13)-(47)-(48)
20 Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22 Amount exceeding the 15% threshold	Not applicable		
23 Of which significant investments in the common stock of financial sector entities	Not applicable		
24 Of which mortgage servicing rights	Not applicable		
25 Of which deferred tax assets arising from temporary differences	Not applicable		
26 National specific regulatory adjustments applied to CET1 capital	72,636		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	50,073		(36)+(41)
26b Regulatory reserve for general banking risks	22,563		(39)
27 Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	14,187		(50)-(49)
28 Total regulatory deductions to CET1 capital	109,888		
29 CET1 capital	351,105		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2013		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	Cross- referenced to **
	HK\$m	HK\$m	
AT1 capital: instruments			
30 Qualifying AT1 capital instruments plus related share premium	–		
31 Of which classified as equity under applicable accounting standards	–		
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	30,651		(31)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	8,215		(44)+(45)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	5,884		(45)
36 AT1 capital before regulatory deductions	38,866		(49)
AT1 capital: regulatory deductions			
37 Investments in own AT1 capital instruments	–	–	
38 Reciprocal cross-holdings in AT1 capital instruments	–	–	
39 Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
40 Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	–	
41 National specific regulatory adjustments applied to AT1 capital	53,053		
41a Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	53,053		
vii Of which significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	53,053		(47)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43 Total regulatory deductions to AT1 capital	53,053		(50)
44 AT1 capital	–		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	351,105		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2013		
	Component of	Amounts subject	Cross-
	regulatory capital	to pre- Basel III treatment*	referenced to **
	HK\$m	HK\$m	
Tier 2 capital : instruments and provisions			
46 Qualifying Tier 2 capital instruments plus any related share premium	6,203		(23)
47 Capital instruments subject to phase out arrangements from Tier 2 capital	35,399		(25)+(29)+ (32)
48 Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	4,607		(30)+(46)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	3,761		(30)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	13,519		(5)+(40)
51 Tier 2 capital before regulatory deductions	59,728		
Tier 2 capital : regulatory deductions			
52 Investments in own Tier 2 capital instruments	–	–	
53 Reciprocal cross-holdings in Tier 2 capital instruments	–	–	
54 Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
55 Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,857	–	(9)
56 National specific regulatory adjustments applied to Tier 2 capital	29,866		
56a Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(23,187)		[(34)+(36)+ (41)]x45%
56b Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	53,053		
vii Of which significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	53,053		(48)
57 Total regulatory deductions to Tier 2 capital	32,723		
58 Tier 2 capital	27,005		
59 Total capital (Total capital = Tier 1 + Tier 2)	378,110		
60 Total risk weighted assets	2,482,354		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2013		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	Cross- referenced to **
	HK\$m	HK\$m	
Capital ratios (as a percentage of risk weighted assets)			
61 CET1 capital ratio	14.14%		
62 Tier 1 capital ratio	14.14%		
63 Total capital ratio	15.23%		
64 Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	3.50%		
65 Of which capital conservation buffer requirement	0.00%		
66 Of which bank specific countercyclical buffer requirement	0.00%		
67 Of which G-SIB or D-SIB buffer requirement	0.00%		
68 CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	7.23%		
National minima (if different from Basel 3 minimum)			
69 National CET1 minimum ratio		Not applicable	
70 National Tier 1 minimum ratio		Not applicable	
71 National total capital minimum ratio		Not applicable	
Amounts below the thresholds for deduction (before risk weighting)			
72 Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	10,216		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	35,265		
74 Mortgage servicing rights (net of related tax liability)		Not applicable	
75 Deferred tax assets arising from temporary differences (net of related tax liability)		Not applicable	
Applicable caps on the inclusion of provisions in Tier 2 capital			
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardised (credit risk) approach (prior to application of cap)	3,296		
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	2,840		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	15,247		
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	10,679		
Capital instruments subject to phase-out arrangements			
80 Current cap on CET1 capital instruments subject to phase out arrangements		Not applicable	
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		Not applicable	
82 Current cap on AT1 capital instruments subject to phase out arrangements	46,413		
83 Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–		
84 Current cap on Tier 2 capital instruments subject to phase out arrangements	49,565		
85 Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–		

* This refers to the position under the Banking (Capital) Rules in force on 31 December 2012.

** Cross-referenced to Balance Sheet Reconciliation in Appendix 2b.

Appendix 1: Transition Disclosures Template *(continued)***Notes to the template**

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	At 31 December 2013	
		Hong Kong basis HK\$m	Basel III basis HK\$m

10	Deferred tax assets net of deferred tax liabilities	2,350	282
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Explanation

As set out in paragraph 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), Deferred Tax Assets ('DTAs') that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for Mortgage Servicing Rights ('MSRs'), DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.

19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	106,981	105,456
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Explanation

For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

Remarks:

The amount of the 10%/15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.

Appendix 2: Balance Sheet Reconciliation

The following tables together provide a reconciliation of the group's consolidated statement of financial position, as published in the 2014 Consolidated Results - Highlights, to the Transition Disclosures Template in Appendix 1 of this document.

- a. The following table sets out the group's consolidated statement of financial position based on the accounting scope of consolidation and the corresponding balances based on the regulatory scope of consolidation.

	At 31 December 2014		At 31 December 2013	
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m
Assets				
Cash and sight balances at central banks	156,475	156,452	158,879	158,694
Items in the course of collection from other banks	21,122	21,122	16,346	16,346
Hong Kong Government certificates of indebtedness	214,654	214,654	195,554	195,554
Trading assets	407,026	406,969	311,400	311,362
Derivatives	389,934	390,045	388,727	388,659
Financial assets designated at fair value	98,195	1,257	90,146	1,561
Reverse repurchase agreements - non-trading	218,901	139,041	150,584	107,469
Placings with and advances to banks	488,313	467,514	564,521	545,236
Loans and advances to customers	2,815,216	2,809,284	2,619,245	2,617,287
Financial investments	1,456,493	1,223,720	1,379,771	1,172,799
Amounts due from Group companies	191,694	250,968	161,975	209,191
Investments in subsidiaries	–	15,573	–	12,308
Interests in associates and joint ventures	116,654	113,915	107,852	105,319
Goodwill and intangible assets	45,078	11,346	41,882	11,793
Property, plant and equipment	104,679	102,712	101,240	99,301
Deferred tax assets	1,436	1,386	2,294	2,216
Other assets	150,876	130,818	148,939	133,153
Total assets	6,876,746	6,456,776	6,439,355	6,088,248

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2014		At 31 December 2013	
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m
Liabilities				
Hong Kong currency notes in circulation	214,654	214,654	195,554	195,554
Items in the course of transmission to other banks	31,331	31,331	34,240	34,240
Repurchase agreements - non-trading	28,379	28,379	6,312	6,312
Deposits by banks	226,713	226,580	231,358	231,099
Customer accounts	4,479,992	4,467,372	4,253,698	4,244,578
Trading liabilities	215,812	215,812	195,032	195,032
Derivatives	367,128	367,226	365,052	364,644
Financial liabilities designated at fair value	48,834	12,169	41,715	5,029
Debt securities in issue	45,297	45,266	52,334	52,334
Retirement benefit liabilities	5,606	5,603	4,856	4,783
Amounts due to Group companies	135,814	140,523	91,797	118,544
Other liabilities and provisions	87,731	84,431	88,809	86,019
Liabilities under insurance contracts	310,182	–	276,180	–
Current tax liabilities	2,927	2,438	3,722	3,551
Deferred tax liabilities	18,586	12,312	16,051	11,056
Subordinated liabilities	12,832	12,832	13,107	13,107
Preference shares	36,582	36,474	47,314	47,205
Total liabilities	6,268,400	5,903,402	5,917,131	5,613,087
Equity				
Share capital	96,052	96,052	85,319	85,319
Other equity instruments	14,737	14,737	–	–
Other reserves	107,985	104,800	89,564	89,751
Retained profits	324,811	277,897	290,926	247,913
Proposed fourth interim dividend	14,250	14,250	15,000	15,000
Total shareholders' equity	557,835	507,736	480,809	437,983
Non-controlling interests	50,511	45,638	41,415	37,178
Total equity	608,346	553,374	522,224	475,161
Total equity and liabilities	6,876,746	6,456,776	6,439,355	6,088,248

December 2013 comparatives have been re-presented to conform to the current period's presentation. For details of these changes in presentation, see note 1c on the financial statements in the Annual Report and Accounts 2014.

Appendix 2: Balance Sheet Reconciliation *(continued)*

- b. The following table expands the balance sheet under the regulatory scope of consolidation to show separately the capital components that are reported in the Transition Disclosures Template in Appendix 1. The capital components in this table contain a reference which shows how these amounts are included in the Transition Disclosures Template in Appendix 1.

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2014		Cross-referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
Assets			
Cash and sight balances at central banks	156,475	156,452	
Items in the course of collection from other banks	21,122	21,122	
Hong Kong Government certificates of indebtedness	214,654	214,654	
Trading assets	407,026	406,969	
Of which valuation adjustments		349	(1)
Derivatives	389,934	390,045	
Of which valuation adjustments		777	(2)
Financial assets designated at fair value	98,195	1,257	
Reverse repurchase agreements - non-trading	218,901	139,041	
Placings with and advances to banks	488,313	467,514	
Loans and advances to customers	2,815,216	2,809,284	
Of which impairment allowances eligible for inclusion in Tier 2 capital		1,828	(3)
Financial investments	1,456,493	1,223,720	
Of which significant capital investments in financial sector entities exceeding 10% threshold		33,419	(4)
Of which valuation adjustments		903	(5)
Amounts due from Group companies	191,694	250,968	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,262	(6)
Of which significant capital investments in financial sector entities exceeding 10% threshold		3,172	(7)
Investments in subsidiaries	–	15,573	
Of which significant capital investment in financial sector entities exceeding 10% threshold		11,769	(8)
Interests in associates and joint ventures	116,654	113,915	
Of which goodwill		4,122	(9)
Of which intangible assets		145	(10)
Of which significant capital investments in financial sector entities exceeding 10% threshold		82,866	(11)
Goodwill and intangible assets	45,078	11,346	
Of which goodwill		5,384	(12)
Of which intangible assets		5,962	(13)
Property, plant and equipment	104,679	102,712	
Deferred tax assets	1,436	1,386	
Of which deferred tax assets net of related tax liabilities		1,485	(14)
Of which deferred tax liabilities related to goodwill		(94)	(15)
Of which deferred tax liabilities related to intangibles		(5)	(16)
Other assets	150,876	130,818	
Of which defined benefit pension fund net assets		106	(17)
Of which significant capital investments in financial sector entities exceeding 10% threshold		226	(18)
Total assets	6,876,746	6,456,776	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2014		Cross-referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
Liabilities			
Hong Kong currency notes in circulation	214,654	214,654	
Items in the course of transmission to other banks	31,331	31,331	
Repurchase agreements - non-trading	28,379	28,379	
Deposits by banks	226,713	226,580	
Customer accounts	4,479,992	4,467,372	
Trading liabilities	215,812	215,812	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		97	(19)
Of which valuation adjustments		1	(20)
Derivatives	367,128	367,226	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		492	(21)
Financial liabilities designated at fair value	48,834	12,169	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		(50)	(22)
Debt securities in issue	45,297	45,266	
Retirement benefit liabilities	5,606	5,603	
Amounts due to Group companies	135,814	140,523	
Of which qualifying Tier 2 capital instruments		18,613	(23)
Of which gains and losses due to changes in own credit risk on fair valued liabilities		57	(24)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		3,490	(25)
Other liabilities and provisions	87,731	84,431	
Liabilities under insurance contracts	310,182	–	
Current tax liabilities	2,927	2,438	
Deferred tax liabilities	18,586	12,312	
Of which deferred tax liabilities related to goodwill		(5)	(26)
Of which deferred tax liabilities related to intangibles		(826)	(27)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(17)	(28)
Subordinated liabilities	12,832	12,832	
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,337	(29)
Of which portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase out arrangements		3,297	(30)
Preference shares	36,582	36,474	
Of which portion eligible for AT1 capital instruments, subject to phase out arrangements		25,229	(31)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		11,245	(32)
Total liabilities	6,268,400	5,903,402	

Appendix 2: Balance Sheet Reconciliation *(continued)*

	At 31 December 2014		Cross- referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
Equity			
Share capital	96,052	96,052	
Of which portion eligible for inclusion in CET1 capital		94,598	(33)
Of which revaluation reserve capitalisation issue		1,454	(34)
Other equity instruments	14,737	14,737	
Of which qualifying AT1 capital instruments		14,737	(35)
Other reserves	107,985	104,800	(36)
Of which fair value gains arising from revaluation of land and buildings		48,481	(37)
Of which cash flow hedging reserves		(182)	(38)
Retained profits	324,811	277,897	(39)
Of which regulatory reserve for general banking risks		27,959	(40)
Of which regulatory reserve eligible for inclusion in Tier 2 capital		13,129	(41)
Of which fair value gains arising from revaluation of land and buildings		4,176	(42)
Proposed fourth interim dividend	14,250	14,250	(43)
Total shareholders' equity	557,835	507,736	
Non-controlling interests	50,511	45,638	
Of which portion allowable in CET1 capital		27,971	(44)
Of which portion allowable in AT1 capital		3,395	(45)
Of which portion in AT1 capital, subject to phase out arrangements		5,389	(46)
Of which portion allowable in Tier 2 capital		3,513	(47)
Total equity	608,346	553,374	
Total equity and liabilities	6,876,746	6,456,776	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2013 (Re-presented)		Cross- referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
Assets			
Cash and sight balances at central banks	158,879	158,694	
Items in the course of collection from other banks	16,346	16,346	
Hong Kong Government certificates of indebtedness	195,554	195,554	
Trading assets	311,400	311,362	
Of which significant capital investments in financial sector entities exceeding 10% threshold		21	(1)
Of which valuation adjustments		183	(2)
Derivatives	388,727	388,659	
Of which valuation adjustments		1,239	(3)
Financial assets designated at fair value	90,146	1,561	
Of which valuation adjustments		9	(4)
Reverse repurchase agreement - non-trading	150,584	107,469	
Placings with and advances to banks	564,521	545,236	
Loans and advances to customers	2,619,245	2,617,287	
Of which impairment allowances eligible for inclusion in Tier 2 capital		2,086	(5)
Financial investments	1,379,771	1,172,799	
Of which significant capital investments in financial sector entities exceeding 10% threshold		20,820	(6)
Of which valuation adjustments		1,042	(7)
Amounts due from Group companies	161,975	209,191	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,525	(8)
Of which significant capital investments in financial sector entities		2,857	(9)
Investments in subsidiaries	–	12,308	
Of which significant capital investments in financial sector entities exceeding 10% threshold		9,257	(10)
Interests in associates and joint ventures	107,852	105,319	
Of which goodwill		4,603	(11)
Of which intangible assets		516	(12)
Of which significant capital investments in financial sector entities exceeding 10% threshold		75,358	(13)
Goodwill and intangible assets	41,882	11,793	
Of which goodwill		5,525	(14)
Of which intangible assets		6,268	(15)
Property, plant and equipment	101,240	99,301	
Deferred tax assets	2,294	2,216	
Of which deferred tax assets net of related tax liabilities		2,350	(16)
Of which deferred tax liabilities related to goodwill		(95)	(17)
Of which deferred tax liabilities related to intangibles		(39)	(18)
Other assets	148,939	133,153	
Of which defined benefit pension fund net assets		111	(19)
Total assets	6,439,355	6,088,248	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2013 (Re-presented)		Cross- referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
	Liabilities		
Hong Kong currency notes in circulation	195,554	195,554	
Items in the course of transmission to other banks	34,240	34,240	
Repurchase agreements - non-trading	6,312	6,312	
Deposits by banks	231,358	231,099	
Customer accounts	4,253,698	4,244,578	
Trading liabilities	195,032	195,032	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		180	(20)
Derivatives	365,052	364,644	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		903	(21)
Financial liabilities designated at fair value	41,715	5,029	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		(29)	(22)
Debt securities in issue	52,334	52,334	
Retirement benefit liabilities	4,856	4,783	
Amounts due to Group companies	91,797	118,544	
Of which qualifying Tier 2 capital instruments		6,203	(23)
Of which gains and losses due to changes in own credit risk on fair valued liabilities		63	(24)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,499	(25)
Other liabilities and provisions	88,809	86,019	
Liabilities under insurance contracts	276,180	–	
Current tax liabilities	3,722	3,551	
Deferred tax liabilities	16,051	11,056	
Of which deferred tax liabilities related to goodwill		(5)	(26)
Of which deferred tax liabilities related to intangibles		(830)	(27)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(1)	(28)
Subordinated liabilities	13,107	13,107	
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,346	(29)
Of which portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase out arrangements		3,761	(30)
Preference shares	47,314	47,205	
Of which portion eligible for AT1 capital instruments, subject to phase out arrangements		30,651	(31)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		16,554	(32)
Total liabilities	5,917,131	5,613,087	

Appendix 2: Balance Sheet Reconciliation *(continued)*

	At 31 December 2013 (Re-presented)		Cross- referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
Equity			
Share capital	85,319	85,319	
Of which portion eligible for inclusion in CET1 capital		83,865	(33)
Of which revaluation reserve capitalisation issue		1,454	(34)
Other reserves	89,564	89,751	(35)
Of which fair value gains arising from revaluation of land and buildings		46,336	(36)
Of which cash flow hedging reserves		197	(37)
Retained profits	290,926	247,913	(38)
Of which regulatory reserve for general banking risks		22,563	(39)
Of which regulatory reserve eligible for inclusion in Tier 2 capital		11,433	(40)
Of which fair value gains arising from revaluation of land and buildings		3,737	(41)
Proposed fourth interim dividend	15,000	15,000	(42)
Total shareholders' equity	480,809	437,983	
Non-controlling interests	41,415	37,178	
Of which portion allowable in CET1 capital		24,464	(43)
Of which portion allowable in AT1 capital		2,331	(44)
Of which portion in AT1 capital, subject to phase out arrangements		5,884	(45)
Of which portion allowable in Tier 2 capital		846	(46)
Total equity	522,224	475,161	
Total equity and liabilities	6,439,355	6,088,248	