



The Hongkong and Shanghai Banking  
Corporation Limited

Supplementary Notes  
for the six months ended 30 June 2014

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Appendices to this document are available in the Regulatory Disclosures section of our website:  
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## 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 2014 Interim Consolidated Results - Highlights issued on 4 August 2014, 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.

Capital disclosures as required by section 24 of the Banking (Disclosure) Rules are available in the Regulatory Disclosures section of our website: [www.hsbc.com.hk](http://www.hsbc.com.hk).

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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 Supplementary Note 24.

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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 2013, as set out in Note 3 on the financial statements in the *Annual Report and Accounts 2013*.

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c. Certain comparative figures in these Supplementary Notes have been re-presented to conform to the current period’s presentation. For details of these changes in presentation, see note 24 of the 2014 Interim Consolidated Results - Highlights.

**2. Net interest income**

	<b>Half-year ended 30 June 2014 HK\$m</b>	Half-year ended 30 June 2013 HK\$m
Net interest income includes the following:		
- interest income accrued on impaired financial assets	<u>148</u>	<u>53</u>

**3. Net fee income**

	<b>Half-year ended 30 June 2014 HK\$m</b>	Half-year ended 30 June 2013 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	7,594	7,644
- fee expense	<u>(899)</u>	<u>(904)</u>
	<u>6,695</u>	<u>6,740</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	4,189	4,395
- fee expense	<u>(473)</u>	<u>(477)</u>
	<u>3,716</u>	<u>3,918</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 2014 HK\$m</b>	Half-year ended 30 June 2013 HK\$m
Loans and receivables	<u>174</u>	<u>254</u>

There are no gains or losses on held-to-maturity investments or financial liabilities measured at amortised cost for the half-years ended 30 June 2014 and 30 June 2013.

**5. Dividend income**

	<b>Half-year ended 30 June 2014 HK\$m</b>	Half-year ended 30 June 2013 HK\$m
Listed investments	<b>6</b>	6
Unlisted investments	<b>148</b>	121
	<b>154</b>	127

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

	<b>At 30 June 2014 HK\$m</b>	At 31 December 2013 HK\$m (Re-presented)
Cash in hand	<b>16,609</b>	17,982
Balances with central banks	<b>113,918</b>	140,897
	<b>130,527</b>	158,879

At 30 June 2014, the total amount placed with central banks, included within cash and balances at central banks, reverse repurchase agreements - non-trading, and placings with and advances to banks, amounted to HK\$ 310,764m (31 December 2013: HK\$ 321,433 m).

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

	<b>At 30 June 2014 HK\$m</b>	At 31 December 2013 HK\$m (Re-presented)
Gross placings with and advances to banks		
– maturing within one month	<b>369,831</b>	366,445
– maturing after one month but within one year	<b>152,066</b>	166,835
– maturing after one year	<b>37,767</b>	31,241
	<b>559,664</b>	564,521

There are no significant overdue, impaired or rescheduled placings with and advances to banks at 30 June 2014 and 31 December 2013.

## 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 2014 HK\$m	At 31 December 2013 HK\$m (Re-presented)	At 30 June 2014 HK\$m	At 31 December 2013 HK\$m (Re-presented)
Gross loans and advances to customers for use in Hong Kong				
<i>Industrial, commercial and financial</i>				
Property development	90,681	82,700	26,809	26,960
Property investment	232,390	217,098	180,291	169,273
Financial concerns	34,611	31,032	18,574	14,544
Stockbrokers	9,391	5,828	1,678	257
Wholesale and retail trade	101,398	93,187	29,977	28,429
Manufacturing	44,865	36,799	12,809	8,465
Transport and transport equipment	44,388	37,480	22,664	21,722
Recreational activities	450	263	40	63
Information technology	18,705	9,980	1,288	1,230
Others	111,652	85,317	32,855	29,596
	<b>688,531</b>	<b>599,684</b>	<b>326,985</b>	<b>300,539</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	25,629	25,040	25,629	25,040
Advances for the purchase of other residential properties	359,627	349,541	359,625	349,529
Credit card advances	47,007	48,452	–	–
Others	62,030	54,358	30,568	24,262
	<b>494,293</b>	<b>477,391</b>	<b>415,822</b>	<b>398,831</b>
Gross loans and advances to customers for use in Hong Kong	<b>1,182,824</b>	<b>1,077,075</b>	<b>742,807</b>	<b>699,370</b>
Trade finance	211,279	218,096	32,849	28,858
Gross loans and advances to customers for use outside Hong Kong	<b>1,424,869</b>	<b>1,333,575</b>	<b>550,129</b>	<b>512,588</b>
Gross loans and advances to customers	<b>2,818,972</b>	<b>2,628,746</b>	<b>1,325,785</b>	<b>1,240,816</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, among other factors.

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 2014</b>			
<b>Gross loans and advances to customers</b>			
Individually assessed impaired gross loans and advances	3,210	9,781	12,991
Collectively assessed	1,624,218	1,181,763	2,805,981
Impaired loans and advances	552	812	1,364
Non-impaired loans and advances	1,623,666	1,180,951	2,804,617
Total gross loans and advances to customers	1,627,428	1,191,544	2,818,972
<b>Impairment allowances</b>	(3,685)	(5,908)	(9,593)
Individually assessed	(1,519)	(3,532)	(5,051)
Collectively assessed	(2,166)	(2,376)	(4,542)
Net loans and advances	1,623,743	1,185,636	2,809,379
Fair value of collateral which has been taken into account in respect of individually assessed impaired loan and advances to customers	1,364	4,373	5,737
Individually assessed impaired gross loans and advances as a percentage of gross loans and advances to customers	0.2%	0.8%	0.5%
Total allowances as a percentage of total gross loans and advances	0.2%	0.5%	0.3%
<b>At 31 December 2013 (Re-presented)</b>			
<b>Gross loans and advances to customers</b>			
Individually assessed impaired gross loans and advances	2,928	8,867	11,795
Collectively assessed	1,501,310	1,115,641	2,616,951
Impaired loans and advances	524	816	1,340
Non-impaired loans and advances	1,500,786	1,114,825	2,615,611
Total gross loans and advances to customers	1,504,238	1,124,508	2,628,746
<b>Impairment allowances</b>	(3,480)	(6,021)	(9,501)
Individually assessed	(1,349)	(3,658)	(5,007)
Collectively assessed	(2,131)	(2,363)	(4,494)
Net loans and advances	1,500,758	1,118,487	2,619,245
Fair value of collateral which has been taken into account in respect of individually assessed impaired loan and advances to customers	1,433	3,619	5,052
Individually assessed impaired gross loans and advances as a percentage of gross loans and advances to customers	0.2%	0.8%	0.4%
Total allowances as a percentage of total gross loans and advances	0.2%	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 2014</b>				
Residential mortgages	<b>740,094</b>	<b>2,065</b>	<b>(315)</b>	<b>(79)</b>
Commercial, industrial and international trade	<b>897,449</b>	<b>6,527</b>	<b>(3,337)</b>	<b>(2,148)</b>
Other commercial	<b>291,018</b>	<b>2,287</b>	<b>(573)</b>	<b>(402)</b>
Commercial real estate	<b>269,153</b>	<b>330</b>	<b>(63)</b>	<b>(84)</b>
<b>At 31 December 2013 (Re-presented)</b>				
Residential mortgages	713,717	2,121	(363)	(77)
Commercial, industrial and international trade	856,520	6,264	(3,194)	(2,050)
Other commercial	244,727	1,345	(522)	(372)
Commercial real estate	267,969	189	(82)	(89)

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**

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		Rest of Asia-Pacific		Total	
	HK\$m	% <sup>1</sup>	HK\$m	% <sup>1</sup>	HK\$m	% <sup>1</sup>
<b>At 30 June 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	411	0.0	1,737	0.1	2,148	0.1
– more than six months but less than one year	519	0.0	1,004	0.1	1,523	0.0
– more than one year	2,071	0.1	2,646	0.2	4,717	0.2
	<b>3,001</b>	<b>0.1</b>	<b>5,387</b>	<b>0.4</b>	<b>8,388</b>	<b>0.3</b>
Individually assessed impairment allowances made in respect of amounts overdue	(1,426)		(2,444)		(3,870)	
Fair value of collateral held in respect of amounts overdue	902		2,454		3,356	
Rescheduled loans and advances to customers	509	0.0	1,999	0.2	2,508	0.1
<b>At 31 December 2013</b>						
Gross amounts which have been overdue with respect to either principal or interest for						
– more than three months but less than six months	402	0.0	1,836	0.2	2,238	0.1
– more than six months but less than one year	223	0.0	1,300	0.1	1,523	0.1
– more than one year	1,956	0.1	2,449	0.2	4,405	0.2
	<b>2,581</b>	<b>0.1</b>	<b>5,585</b>	<b>0.5</b>	<b>8,166</b>	<b>0.4</b>
Individually assessed impairment allowances made in respect of amounts overdue	(1,132)		(2,698)		(3,830)	
Fair value of collateral held in respect of amounts overdue	914		2,429		3,343	
Rescheduled loans and advances to customers	464	0.0	1,928	0.2	2,392	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 a 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 2014</b>				
Gross loans and advances to customers	<u>1,340,324</u>	<u>1,256,135</u>	<u>222,513</u>	<u>2,818,972</u>
<b>At 31 December 2013</b>				
Gross loans and advances to customers (re-presented)	<u>1,234,958</u>	<u>1,180,624</u>	<u>213,164</u>	<u>2,628,746</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. Non-bank mainland exposures

The analysis of non-bank mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the HKMA return 'Quarterly Analysis of Loans and Advances and Provisions – (MA(BS)2A)', which includes mainland exposures extended by the Bank and its wholly owned banking subsidiaries in mainland China.

	On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	Total exposures HK\$m	Specific provisions HK\$m
<b>At 30 June 2014</b>				
Mainland entities	120,779	12,616	133,395	–
Companies and individuals outside the mainland where the credit is granted for use in the mainland	50,798	2,878	53,676	154
Other counterparties the exposures to whom are considered by the Bank to be non-bank mainland exposures	<u>40,738</u>	<u>3,559</u>	<u>44,297</u>	<u>6</u>
	<b>212,315</b>	<b>19,053</b>	<b>231,368</b>	<b>160</b>
Mainland exposures of wholly owned mainland subsidiaries:				
Loans and advances	197,268	6,017	203,285	167
Debt securities and other	<u>156,841</u>	<u>45,915</u>	<u>202,756</u>	<u>–</u>
	<b>354,109</b>	<b>51,932</b>	<b>406,041</b>	<b>167</b>
	<b>566,424</b>	<b>70,985</b>	<b>637,409</b>	<b>327</b>
<b>At 31 December 2013</b>				
Mainland entities	138,876	11,354	150,230	–
Companies and individuals outside the mainland where the credit is granted for use in the mainland	48,332	4,638	52,970	15
Other counterparties the exposures to whom are considered by the Bank to be non-bank mainland exposures	<u>36,132</u>	<u>4,552</u>	<u>40,684</u>	<u>2</u>
	223,340	20,544	243,884	17
Mainland exposures of wholly owned mainland subsidiaries:				
Loans and advances	171,875	4,137	176,012	165
Debt securities and other	<u>154,835</u>	<u>35,993</u>	<u>190,828</u>	<u>–</u>
	326,710	40,130	366,840	165
	<b>550,050</b>	<b>60,674</b>	<b>610,724</b>	<b>182</b>

## 10. Cross-border exposures

The group's country risk exposures in the table below are prepared in accordance with the HKMA return of External Positions Part II: Cross-Border Claims (MA(BS)9B) guidelines. Cross-border claims are on-balance sheet exposures to foreign counterparties, based on the location of the counterparties after taking into account the transfer of risk. Cross-border claims also include in country claims of overseas branches and subsidiaries which are not denominated in the local currency.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the aggregate cross-border claims. Cross-border risk is controlled centrally through a well-developed system of country limits and is frequently reviewed to avoid concentration of transfer, economic or political risk.

	Banks HK\$m	Public sector entities <sup>1</sup> HK\$m	Others HK\$m	Total HK\$m
<b>At 30 June 2014</b>				
<b>Asia-Pacific excluding Hong Kong</b>				
China	377,023	36,419	196,830	610,272
Others	210,688	198,633	330,665	739,986
	<u>587,711</u>	<u>235,052</u>	<u>527,495</u>	<u>1,350,258</u>
<b>Americas</b>	<u>73,969</u>	<u>117,834</u>	<u>228,805</u>	<u>420,608</u>
<b>Europe</b>	<u>246,569</u>	<u>57,346</u>	<u>147,608</u>	<u>451,523</u>
<b>At 31 December 2013</b>				
<b>Asia-Pacific excluding Hong Kong</b>				
China	357,745	72,148	171,219	601,112
Others	188,520	172,504	324,098	685,122
	<u>546,265</u>	<u>244,652</u>	<u>495,317</u>	<u>1,286,234</u>
<b>Americas</b>	<u>67,170</u>	<u>135,554</u>	<u>194,379</u>	<u>397,103</u>
<b>Europe</b>	<u>207,891</u>	<u>54,688</u>	<u>132,858</u>	<u>395,437</u>

<sup>1</sup> Includes balances with central banks

**11. Financial investments**

	At 30 June 2014 HK\$m	At 31 December 2013 HK\$m (Re-presented)
Held-to-maturity debt securities	<b>181,339</b>	179,465
Available-for-sale securities		
– Certificates of deposit held	<b>75,292</b>	75,984
– Treasury bills	<b>521,614</b>	525,698
– Other debt securities	<b>562,644</b>	563,828
– Equity shares	<b>34,606</b>	34,796
	<b><u>1,375,495</u></b>	<u>1,379,771</u>

There are no overdue debt securities at 30 June 2014 and 31 December 2013.

**12. Interests in associates**

	At 30 June 2014 HK\$m	At 31 December 2013 HK\$m
Interests in associates	<b><u>112,303</u></b>	<u>107,384</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 2014	85,306	11,392	22,686	119,384
Exchange and other adjustments	(46)	–	74	28
Additions	83	–	835	918
Disposals	–	–	(469)	(469)
Elimination of accumulated depreciation on revalued land and buildings	(1,104)	–	–	(1,104)
Surplus on revaluation	1,768	319	–	2,087
Reclassifications	(398)	392	–	(6)
At 30 June 2014	<u>85,609</u>	<u>12,103</u>	<u>23,126</u>	<u>120,838</u>
<b>Accumulated depreciation</b>				
At 1 January 2014	91	–	18,053	18,144
Exchange and other adjustments	1	–	70	71
Charge for the period	1,127	–	899	2,026
Disposals	–	–	(451)	(451)
Elimination of accumulated depreciation on revalued land and buildings	(1,104)	–	–	(1,104)
Reclassification	(6)	–	–	(6)
At 30 June 2014	<u>109</u>	<u>–</u>	<u>18,571</u>	<u>18,680</u>
<b>Net book value at 30 June 2014</b>	<u>85,500</u>	<u>12,103</u>	<u>4,555</u>	<u>102,158</u>
Net book value at 31 December 2013	<u>85,215</u>	<u>11,392</u>	<u>4,633</u>	<u>101,240</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 2014 HK\$m	At 31 December 2013 HK\$m
Repossessed assets	<u>155</u>	<u>72</u>

There are no significant overdue other assets at 30 June 2014 and 31 December 2013.

**15. Trading liabilities**

	At 30 June 2014 HK\$m	At 31 December 2013 HK\$m
Certificates of deposit in issue	3,786	4,261
Other debt securities in issue	22,246	18,104
Short positions in securities	71,848	53,889
Deposits by banks	16,137	6,558
Customer accounts	127,382	112,220
	<u>241,399</u>	<u>195,032</u>

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

	At 30 June 2014 HK\$m	At 31 December 2013 HK\$m
Deposits by banks	229	222
Debt securities in issue	10,826	4,807
Liabilities to customers under investment contracts	37,142	36,686
	<u>48,197</u>	<u>41,715</u>

**17. Debt securities in issue**

	At 30 June 2014 HK\$m	At 31 December 2013 HK\$m
Certificates of deposit	10,193	16,319
Other debt securities	39,517	36,015
	<u>49,710</u>	<u>52,334</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 2014 HK\$m	At 31 December 2013 HK\$m
<i>Bank</i>			
US\$1,200m	Primary capital undated floating rate notes	9,337	9,346
<i>Group</i>			
AUD200m	Floating rate subordinated notes due 2020, callable from 2015	1,457	1,386
MYR500m	Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017 <sup>1</sup>	1,206	1,182
MYR500m	Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022 <sup>2</sup>	1,217	1,193
		<u>13,217</u>	<u>13,107</u>

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

2 The interest rate on the 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 2014 HK\$m	At 31 December 2013 HK\$m
<b>Contingent liabilities and commitments</b>		
Direct credit substitutes	100,409	95,496
Transaction-related contingencies	142,050	122,734
Trade-related contingencies	116,981	111,199
Forward asset purchases	2,935	2,301
Forward forward deposits placed	834	2,564
Commitments that are unconditionally cancellable without prior notice	1,511,155	1,423,126
Commitments which have an original maturity of not more than one year	82,268	70,096
Commitments which have an original maturity of more than one year	164,501	150,046
	<u>2,121,133</u>	<u>1,977,562</u>
<b>Risk-weighted amounts</b>	<u>240,836</u>	<u>222,817</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 2014 HK\$m	At 31 December 2013 HK\$m
Exchange rate	14,355,265	12,003,358
Interest rate	19,944,236	18,424,395
Credit	230,291	232,812
Equity, commodity and other	1,312,916	1,367,979
	<u>35,842,708</u>	<u>32,028,544</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 2014</b>			
Exchange rate	12,465,855	75,436	57,246
Interest rate	13,186,600	28,269	26,737
Credit derivative	245,463	1,652	305
Equity, commodity and other	887,489	7,396	12,180
	<u>26,785,407</u>	<u>112,753</u>	<u>96,468</u>
<b>At 31 December 2013</b>			
Exchange rate	10,902,791	61,656	86,782
Interest rate	13,555,486	23,013	30,602
Credit derivative	251,130	1,096	359
Equity, commodity and other	889,476	7,664	14,756
	<u>25,598,883</u>	<u>93,429</u>	<u>132,499</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\$199,890m at 30 June 2014 (31 December 2013: HK\$241,272m).

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. The group's gross structural foreign exchange exposure is represented by the net asset value of the group's foreign currency investments in subsidiaries, branches and associates, and the fair value of the group's long-term foreign currency equity investments. 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 2014</b>		
Chinese renminbi	144,904	181,032
<b>At 31 December 2013</b>		
Chinese renminbi	135,713	172,594

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	Chinese renminbi HK\$m
<b>As 30 June 2014</b>				
Spot assets	1,785,974	303,439	20,080	698,516
Spot liabilities	(1,972,377)	(251,922)	(27,423)	(663,643)
Forward purchases	6,906,112	220,161	636	1,972,053
Forward sales	(6,695,839)	(264,772)	(560)	(2,012,249)
Net options positions	1,936	(5)	-	(656)
<b>Net long/(net short) position</b>	<b>25,806</b>	<b>6,901</b>	<b>(7,267)</b>	<b>(5,979)</b>
<b>As 31 December 2013</b>				
Spot assets	1,624,983	315,356	17,512	728,767
Spot liabilities	(1,815,034)	(254,883)	(31,553)	(635,263)
Forward purchases	5,989,494	349,352	197	1,392,469
Forward sales	(5,769,631)	(396,101)	(22)	(1,479,839)
Net options positions	1,779	(9)	-	(418)
<b>Net long/(net short) position</b>	<b>31,591</b>	<b>13,715</b>	<b>(13,866)</b>	<b>5,716</b>

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

## 22. Liquidity ratio

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

The average liquidity ratios for the period are as follows:

	Half-year ended 30 June 2014 %	Half-year ended 30 June 2013 %
Hong Kong branches of the Bank	<u>35.2</u>	<u>37.5</u>

## 23. 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.

	<u>At 30 June 2014</u>	
	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>		
Perpetual non-cumulative preference shares	US\$3,253m	<u>25,213</u>
<b>Tier 2 capital instruments</b>		
Perpetual cumulative preference shares	US\$400m	<u>3,100</u>
Cumulative preference shares due 2024	US\$1,050m	<u>8,138</u>
Primary capital undated floating rate notes	US\$1,200m	<u>9,337</u>
Subordinated loan due 2020	US\$775m	<u>6,007</u>
Subordinated loan due 2021	US\$450m	<u>3,488</u>
Subordinated loan due 2022	US\$300m	<u>2,325</u>
Subordinated loan due 2023	US\$500m	<u>3,875</u>
Subordinated loan due 2024	US\$1,600m	<u>12,402</u>
Floating rate subordinated notes due 2020, callable from 2015	AUD200m	<u>1,348</u>
Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017	MYR500m	<u>1,136</u>
Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022	MYR500m	<u>1,146</u>
		<u>31,727</u>

**23. Capital instruments (continued)**

	At 31 December 2013	
	Issued/Par value	Amount recognised in regulatory capital HK\$m
CET1 capital instruments		
Ordinary shares:		
34,127,482,901 issued and fully paid ordinary shares of HK\$2.50 each.	HK\$85,319m	<u>83,865</u>
AT1 capital instruments		
Perpetual non-cumulative preference shares	US\$3,953m	<u>30,651</u>
Tier 2 capital instruments		
Perpetual cumulative preference shares	US\$1,085m	<u>8,413</u>
Cumulative preference shares due 2024	US\$1,050m	<u>8,141</u>
Primary capital undated floating rate notes	US\$1,200m	<u>9,346</u>
Subordinated loan due 2020	US\$775m	6,010
Subordinated loan due 2021	US\$450m	3,489
Subordinated loan due 2022	US\$300m	2,326
Subordinated loan due 2023	US\$500m	3,877
Floating rate subordinated notes due 2020, callable from 2015	AUD200m	1,386
Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017	MYR500m	1,182
Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022	MYR500m	<u>1,193</u>
		<u>19,463</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 Disclosures section of our website [www.hsbc.com.hk](http://www.hsbc.com.hk).

## 24. 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 *Annual Report and Accounts 2013*. This basis differs from the basis of consolidation used for regulatory purposes applied in note 21 of the 2014 Interim Consolidated Results – Highlights as well as notes 19, 20b, 23 and the appendices of this document.

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 2014		At 31 December 2013	
		Total assets HK\$m	Total equity HK\$m	Total assets HK\$m	Total equity HK\$m
HSBC Broking Futures (Hong Kong) Ltd	Futures broking	2,618	460	2,828	458
HSBC Broking Services (Asia) Ltd and its subsidiaries	Broking services	17,638	2,565	18,016	2,428
HSBC Futures (Singapore) Pte Ltd	Futures broking	67	67	67	67
HSBC Global Asset Management Holdings (Bahamas) Ltd and its subsidiaries	Asset management	1,350	843	1,355	780
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	Insurance	271,931	19,443	251,617	17,031
HSBC InvestDirect (India) Ltd and its subsidiaries	Financial services	682	512	679	476
HSBC Securities (Asia) Ltd and its subsidiaries	Broking services	421	420	420	419
HSBC Securities (Japan) Ltd	Broking services	77,959	1,371	48,828	1,341
HSBC Securities (Singapore) Pte Ltd	Broking services	182	35	83	37
HSBC Securities Brokers (Asia) Ltd	Broking services	7,608	1,064	8,856	982
Hang Seng (Nominee) Ltd	Nominee services	–	–	–	–
Hang Seng Bank (Trustee) Ltd	Trustee services	5	3	5	3
Hang Seng Bank Trustee International Ltd	Trust business	13	9	16	12
Hang Seng Futures Ltd	Futures broking	103	102	102	102
Hang Seng Insurance Co. Ltd and its subsidiaries	Insurance	99,605	9,395	95,736	8,796
Hang Seng Investment Management Ltd	Asset management	774	727	715	602
Hang Seng Investment Services Ltd	Investment services	9	9	9	9
Hang Seng Securities Ltd	Broking services	2,804	1,535	3,019	1,451

**24. 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\$31,351m (31 December 2013: HK\$28,916m) 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 2014 and 31 December 2013.

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 2014 and 31 December 2013.

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.

**25. 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 2013 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 24 February 2014. The *Annual Report and Accounts* for The Hongkong and Shanghai Banking Corporation Limited for the year ended 31 December 2013, 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).