



The Hongkong and Shanghai Banking  
Corporation Limited

Supplementary Notes Appendices  
for the six months ended 30 June 2016

(unaudited)

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# 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 30 June 2016		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	
	HK\$m	HK\$m	
<b>Common equity tier 1 (CET1) capital: instruments and reserves</b>			
1 Directly issued qualifying CET1 capital instruments plus any related share premium	112,905		(29)
2 Retained earnings	336,182		(36)
3 Disclosed reserves	95,361		(32)
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)	22,105		(41)
<b>6 CET1 capital before regulatory deductions</b>	<b>566,553</b>		
<b>CET1 capital: regulatory deductions</b>			
7 Valuation adjustments	1,950		(35)+(40)
8 Goodwill (net of associated deferred tax liability)	8,837		(7)+(10)+ (13)+(22)
9 Other intangible assets (net of associated deferred tax liability)	5,371	–	(8)+(11)+ (14)+(23)
10 Deferred tax assets net of deferred tax liabilities	2,408		(12)
11 Cash flow hedge reserve	(97)		(34)
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	1,611	–	(17)+(18)+ (19)+(21)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	28	–	(15)+(24)
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)	55,756	33,662	(1)+(3)+(4)+ (6)+(9)+(16) -(44)-(45)
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 30 June 2016		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre-Basel III treatment *	
	HK\$m	HK\$m	
22 Amount exceeding the 15% threshold	<b>Not applicable</b>		
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	<b>82,369</b>		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	57,096		(33)+(39)
26b Regulatory reserve for general banking risks	25,273		(37)
27 Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	–		
<b>28 Total regulatory deductions to CET1 capital</b>	<b>158,233</b>		
<b>29 CET1 capital</b>	<b>408,320</b>		
<b>AT1 capital: instruments</b>			
30 Qualifying AT1 capital instruments plus related share premium	<b>14,737</b>		(31)
31 Of which classified as equity under applicable accounting standards	14,737		(31)
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	<b>25,240</b>		(27)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	<b>8,067</b>		(42)+(43)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	6,783		(43)
<b>36 AT1 capital before regulatory deductions</b>	<b>48,044</b>		
<b>AT1 capital: regulatory deductions</b>			
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	<b>16,831</b>		
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	16,831		
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	16,831		(44)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
<b>43 Total regulatory deductions to AT1 capital</b>	<b>16,831</b>		
<b>44 AT1 capital</b>	<b>31,213</b>		
<b>45 Tier 1 capital (Tier 1 = CET1 + AT1)</b>	<b>439,533</b>		

## Appendix 1: Transition Disclosures Template (continued)

	At 30 June 2016		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	
	HK\$m	HK\$m	
<b>Tier 2 capital : instruments and provisions</b>			
46 Qualifying Tier 2 capital instruments plus any related share premium	20,018		(20)
47 Capital instruments subject to phase out arrangements from Tier 2 capital	4,656		(25)+(28)
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)	1,651		(26)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	1,651		(26)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	14,212		(2)+(38)
<b>51 Tier 2 capital before regulatory deductions</b>	<b>40,537</b>		
<b>Tier 2 capital : regulatory deductions</b>			
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	–	(5)
56 National specific regulatory adjustments applied to Tier 2 capital	(9,516)		
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	(26,347)		[(30)+(33)+(39)] 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	16,831		
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	16,831		(45)
<b>57 Total regulatory deductions to Tier 2 capital</b>	<b>(6,344)</b>		
<b>58 Tier 2 capital</b>	<b>46,881</b>		
<b>59 Total capital (Total capital = Tier 1 + Tier 2)</b>	<b>486,414</b>		
<b>60 Total risk weighted assets</b>	<b>2,539,091</b>		

## Appendix 1: Transition Disclosures Template (continued)

	At 30 June 2016		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	
	HK\$m	HK\$m	
<b>Capital ratios (as a percentage of risk weighted assets)</b>			
61 CET1 capital ratio	16.08%		
62 Tier 1 capital ratio	17.31%		
63 Total capital ratio	19.16%		
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)	6.11%		
65 Of which capital conservation buffer requirement	0.63%		
66 Of which bank specific countercyclical buffer requirement	0.35%		
67 Of which G-SIB or D-SIB buffer requirement	0.63%		
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	11.16%		
<b>National minima (if different from Basel 3 minimum)</b>			
69 National CET1 minimum ratio	Not applicable		
70 National Tier 1 minimum ratio	Not applicable		
71 National total capital minimum ratio	Not applicable		
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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	12,134		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	46,408		
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		
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
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)	3,784		
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	3,074		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	16,114		
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	11,138		
<b>Capital instruments subject to phase-out arrangements</b>			
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	30,942		
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	27,346		
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 30 June 2016	
		Hong Kong basis HK\$m	Basel III basis HK\$m
<b>10</b>	<b>Deferred tax assets net of deferred tax liabilities</b>	<b>2,408</b>	<b>49</b>
	<u>Explanation</u>		
	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.		
<b>19</b>	<b>Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	<b>89,418</b>	<b>87,534</b>
	<u>Explanation</u>		
	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 2015		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	Cross-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	94,598		(31)
2 Retained earnings	327,574		(37)
3 Disclosed reserves	91,906		(34)
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)	22,352		(41)
6 CET1 capital before regulatory deductions	536,430		
CET1 capital: regulatory deductions			
7 Valuation adjustments	1,845		(1)+(2)+(3)+(6)
8 Goodwill (net of associated deferred tax liability)	8,788		(10)+(13)+(16)+(24)
9 Other intangible assets (net of associated deferred tax liability)	5,244	–	(11)+(14)+(25)
10 Deferred tax assets net of deferred tax liabilities	1,863		(15)
11 Cash flow hedge reserve	51		(36)
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	940	–	(19)+(20)+(21)+(23)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	40	–	(17)+(26)
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)	39,524	51,774	(5)+(7)+(9)+(12)+(18)-(44)-(45)
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	84,316		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	56,497		(35)+(40)
26b Regulatory reserve for general banking risks	27,819		(38)
27 Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	–		
28 Total regulatory deductions to CET1 capital	142,611		
29 CET1 capital	393,819		



## Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2015		
	Component of	Amounts subject	Cross-
	regulatory capital	to pre- Basel III treatment *	referenced to **
	HK\$m	HK\$m	
AT1 capital: instruments			
30 Qualifying AT1 capital instruments plus related share premium	14,737		(33)
31 Of which classified as equity under applicable accounting standards	14,737		(33)
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	25,213		(29)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	10,876		(42)+(43)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	9,494		(43)
36 AT1 capital before regulatory deductions	50,826		
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	25,887		
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	25,887		
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	25,887		(44)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43 Total regulatory deductions to AT1 capital	25,887		
44 AT1 capital	24,939		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	418,758		
Tier 2 capital : instruments and provisions			
46 Qualifying Tier 2 capital instruments plus any related share premium	19,996		(22)
47 Capital instruments subject to phase out arrangements from Tier 2 capital	17,442		(27)+(30)
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)	1,607		(28)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	1,607		(28)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	14,040		(4)+(39)
51 Tier 2 capital before regulatory deductions	53,085		

## Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2015		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	Cross- referenced to **
	HK\$m	HK\$m	
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	–	(8)
56 National specific regulatory adjustments applied to Tier 2 capital	(192)		
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	(26,079)		[(32)+(35)+ (40)] 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	25,887		
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	25,887		(45)
57 Total regulatory deductions to Tier 2 capital	2,980		
58 Tier 2 capital	50,105		
59 Total capital (Total capital = Tier 1 + Tier 2)	468,863		
60 Total risk weighted assets	2,519,407		
Capital ratios (as a percentage of risk weighted assets)			
61 CET1 capital ratio	15.63%		
62 Tier 1 capital ratio	16.62%		
63 Total capital ratio	18.61%		
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)	4.50%		
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	10.61%		
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		

Appendix 1: Transition Disclosures Template (*continued*)

	At 31 December 2015		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre-Basel III treatment*	
	HK\$m	HK\$m	
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	10,178		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	43,334		
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)	4,040		
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	3,016		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	19,493		
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	11,024		
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	36,099		
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	31,904		
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 2015	
		Hong Kong basis HK\$m	Basel III basis HK\$m
10	Deferred tax assets net of deferred tax liabilities	1,863	49

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)	91,298	89,690
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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 Interim Report 2016, 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 30 June 2016		At 31 December 2015	
	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
<b>Assets</b>				
Cash and sight balances at central banks	213,600	211,783	151,103	150,784
Items in the course of collection from other banks	34,119	34,119	25,020	25,020
Hong Kong Government certificates of indebtedness	225,094	225,094	220,184	220,184
Trading assets	442,244	441,822	302,626	302,119
Derivatives	451,500	452,038	380,955	381,092
Financial assets designated at fair value	101,152	245	99,095	911
Reverse repurchase agreements - non-trading	274,266	171,361	212,779	120,813
Placings with and advances to banks	461,611	447,414	421,221	408,269
Loans and advances to customers	2,734,234	2,729,655	2,762,290	2,757,787
Financial investments	1,768,537	1,478,161	1,716,046	1,444,795
Amounts due from Group companies	266,674	342,994	244,396	310,861
Investments in subsidiaries	–	15,716	–	15,714
Interests in associates and joint ventures	123,099	120,268	122,438	119,653
Goodwill and intangible assets	53,739	11,154	49,568	10,849
Property, plant and equipment	110,460	107,606	110,064	107,238
Deferred tax assets	2,280	2,238	1,836	1,792
Other assets	141,562	119,202	134,062	114,168
<b>Total assets</b>	<b>7,404,171</b>	<b>6,910,870</b>	<b>6,953,683</b>	<b>6,492,049</b>

## Appendix 2: Balance Sheet Reconciliation (continued)

	At 30 June 2016		At 31 December 2015	
	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
<b>Liabilities</b>				
Hong Kong currency notes in circulation	225,094	225,094	220,184	220,184
Items in the course of transmission to other banks	44,680	44,680	30,753	30,753
Repurchase agreements - non-trading	37,298	37,298	16,158	16,158
Deposits by banks	236,400	236,216	148,294	147,620
Customer accounts	4,735,096	4,722,203	4,640,076	4,627,328
Trading liabilities	219,299	219,283	191,851	191,487
Derivatives	480,606	481,741	369,419	369,974
Financial liabilities designated at fair value	52,424	16,173	50,770	14,722
Debt securities in issue	38,230	38,230	40,859	40,859
Retirement benefit liabilities	6,167	6,167	5,809	5,809
Amounts due to Group companies	148,713	145,559	110,073	108,322
Other liabilities and provisions	86,551	81,933	86,920	83,297
Liabilities under insurance contracts	362,624	–	340,820	–
Current tax liabilities	7,346	6,657	2,456	2,010
Deferred tax liabilities	20,913	13,801	18,799	12,835
Subordinated liabilities	5,054	5,054	8,003	8,003
Preference shares	26,891	26,792	36,553	36,451
<b>Total liabilities</b>	<b>6,733,386</b>	<b>6,306,881</b>	<b>6,317,797</b>	<b>5,915,812</b>
<b>Equity</b>				
Share capital	114,359	114,359	96,052	96,052
Other equity instruments	14,737	14,737	14,737	14,737
Other reserves	99,317	95,361	93,031	91,906
Retained profits	392,769	336,182	380,381	327,574
Total shareholders' equity	621,182	560,639	584,201	530,269
Non-controlling interests	49,603	43,350	51,685	45,968
Total equity	670,785	603,989	635,886	576,237
<b>Total equity and liabilities</b>	<b>7,404,171</b>	<b>6,910,870</b>	<b>6,953,683</b>	<b>6,492,049</b>

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 30 June 2016		Cross-referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
<b>Assets</b>			
Cash and sight balances at central banks	213,600	211,783	
Items in the course of collection from other banks	34,119	34,119	
Hong Kong Government certificates of indebtedness	225,094	225,094	
Trading assets	442,244	441,822	
Of which significant capital investments in financial sector entities exceeding 10% threshold		31	(1)
Derivatives	451,500	452,038	
Financial assets designated at fair value	101,152	245	
Reverse repurchase agreements - non-trading	274,266	171,361	
Placings with and advances to banks	461,611	447,414	
Loans and advances to customers	2,734,234	2,729,655	
Of which impairment allowances eligible for inclusion in Tier 2 capital		2,139	(2)
Financial investments	1,768,537	1,478,161	
Of which significant capital investments in financial sector entities exceeding 10% threshold		3	(3)
Amounts due from Group companies	266,674	342,994	
Of which significant capital investments in financial sector entities exceeding 10% threshold		232	(4)
Of which significant capital investments in financial sector entities exceeding 10% threshold		3,172	(5)
Investments in subsidiaries	–	15,716	
Of which significant capital investment in financial sector entities exceeding 10% threshold		4,715	(6)
Interests in associates and joint ventures	123,099	120,268	
Of which goodwill		3,848	(7)
Of which intangible assets		68	(8)
Of which significant capital investments in financial sector entities exceeding 10% threshold		84,157	(9)
Goodwill and intangible assets	53,739	11,154	
Of which goodwill		5,085	(10)
Of which intangible assets		6,069	(11)
Property, plant and equipment	110,460	107,606	
Deferred tax assets	2,280	2,238	
Of which deferred tax assets net of related tax liabilities		2,408	(12)
Of which deferred tax liabilities related to goodwill		(92)	(13)
Of which deferred tax liabilities related to intangibles		(78)	(14)
Other assets	141,562	119,202	
Of which defined benefit pension fund net assets		33	(15)
Of which significant capital investments in financial sector entities exceeding 10% threshold		280	(16)
<b>Total assets</b>	<b>7,404,171</b>	<b>6,910,870</b>	

## Appendix 2: Balance Sheet Reconciliation (continued)

	At 30 June 2016		Cross-referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
<b>Liabilities</b>			
Hong Kong currency notes in circulation	225,094	225,094	
Items in the course of transmission to other banks	44,680	44,680	
Repurchase agreements - non-trading	37,298	37,298	
Deposits by banks	236,400	236,216	
Customer accounts	4,735,096	4,722,203	
Trading liabilities	219,299	219,283	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		280	(17)
Derivatives	480,606	481,741	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		1,182	(18)
Financial liabilities designated at fair value	52,424	16,173	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		84	(19)
Debt securities in issue	38,230	38,230	
Retirement benefit liabilities	6,167	6,167	
Amounts due to Group companies	148,713	145,559	
Of which qualifying Tier 2 capital instruments		20,018	(20)
Of which gains and losses due to changes in own credit risk on fair valued liabilities		65	(21)
Other liabilities and provisions	86,551	81,933	
Liabilities under insurance contracts	362,624	–	
Current tax liabilities	7,346	6,657	
Deferred tax liabilities	20,913	13,801	
Of which deferred tax liabilities related to goodwill		(4)	(22)
Of which deferred tax liabilities related to intangibles		(688)	(23)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(5)	(24)
Subordinated liabilities	5,054	5,054	
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		3,104	(25)
Of which portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase out arrangements		1,651	(26)
Preference shares	26,891	26,792	
Of which portion eligible for AT1 capital instruments, subject to phase out arrangements		25,240	(27)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		1,552	(28)
<b>Total liabilities</b>	<b>6,733,386</b>	<b>6,306,881</b>	



**Appendix 2: Balance Sheet Reconciliation** *(continued)*

	<u>At 30 June 2016</u>		Cross- referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
<b>Equity</b>			
Share capital	<b>114,359</b>	<b>114,359</b>	
Of which portion eligible for inclusion in CET1 capital		112,905	(29)
Of which revaluation reserve capitalisation issue		1,454	(30)
Other equity instruments	<b>14,737</b>	<b>14,737</b>	
Of which qualifying AT1 capital instruments		14,737	(31)
Other reserves	<b>99,317</b>	<b>95,361</b>	(32)
Of which fair value gains arising from revaluation of land and buildings		52,721	(33)
Of which cash flow hedging reserves		(97)	(34)
Of which valuation adjustment		765	(35)
Retained profits	<b>392,769</b>	<b>336,182</b>	(36)
Of which regulatory reserve for general banking risks		25,273	(37)
Of which regulatory reserve eligible for inclusion in Tier 2 capital		12,073	(38)
Of which fair value gains arising from revaluation of land and buildings		4,375	(39)
Of which valuation adjustment		1,185	(40)
Total shareholders' equity	<b>621,182</b>	<b>560,639</b>	
Non-controlling interests	<b>49,603</b>	<b>43,350</b>	
Of which portion allowable in CET1 capital		22,105	(41)
Of which portion allowable in AT1 capital		1,284	(42)
Of which portion in AT1 capital, subject to phase out arrangements		6,783	(43)
Total equity	<b>670,785</b>	<b>603,989</b>	
<b>Total equity and liabilities</b>	<b>7,404,171</b>	<b>6,910,870</b>	

## Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2015		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	151,103	150,784	
Items in the course of collection from other banks	25,020	25,020	
Hong Kong Government certificates of indebtedness	220,184	220,184	
Trading assets	302,626	302,119	
Of which valuation adjustments		248	(1)
Derivatives	380,955	381,092	
Of which valuation adjustments		843	(2)
Financial assets designated at fair value	99,095	911	
Of which valuation adjustments		1	(3)
Reverse repurchase agreements - non-trading	212,779	120,813	
Placings with and advances to banks	421,221	408,269	
Loans and advances to customers	2,762,290	2,757,787	
Of which impairment allowances eligible for inclusion in Tier 2 capital		1,810	(4)
Financial investments	1,716,046	1,444,795	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,406	(5)
Of which valuation adjustments		753	(6)
Amounts due from Group companies	244,396	310,861	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,608	(7)
Of which significant capital investments in financial sector entities		3,172	(8)
Investments in subsidiaries	–	15,714	
Of which significant capital investment in financial sector entities exceeding 10% threshold		15,714	(9)
Interests in associates and joint ventures	122,438	119,653	
Of which goodwill		3,934	(10)
Of which intangible assets		92	(11)
Of which significant capital investments in financial sector entities exceeding 10% threshold		72,293	(12)
Goodwill and intangible assets	49,568	10,849	
Of which goodwill		4,949	(13)
Of which intangible assets		5,900	(14)
Property, plant and equipment	110,064	107,238	
Deferred tax assets	1,836	1,792	
Of which deferred tax assets net of related tax liabilities		1,863	(15)
Of which deferred tax liabilities related to goodwill		(71)	(16)
Other assets	134,062	114,168	
Of which defined benefit pension fund net assets		48	(17)
Of which significant capital investments in financial sector entities exceeding 10% threshold		277	(18)
Total assets	6,953,683	6,492,049	

## Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2015		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	220,184	220,184	
Items in the course of transmission to other banks	30,753	30,753	
Repurchase agreements - non-trading	16,158	16,158	
Deposits by banks	148,294	147,620	
Customer accounts	4,640,076	4,627,328	
Trading liabilities	191,851	191,487	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		133	(19)
Derivatives	369,419	369,974	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		794	(20)
Financial liabilities designated at fair value	50,770	14,722	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		(49)	(21)
Debt securities in issue	40,859	40,859	
Retirement benefit liabilities	5,809	5,809	
Amounts due to Group companies	110,073	108,322	
Of which qualifying Tier 2 capital instruments		19,996	(22)
Of which gains and losses due to changes in own credit risk on fair valued liabilities		62	(23)
Other liabilities and provisions	86,920	83,297	
Liabilities under insurance contracts	340,820	–	
Current tax liabilities	2,456	2,010	
Deferred tax liabilities	18,799	12,835	
Of which deferred tax liabilities related to goodwill		(24)	(24)
Of which deferred tax liabilities related to intangibles		(748)	(25)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(8)	(26)
Subordinated liabilities	8,003	8,003	
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		6,204	(27)
Of which portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase out arrangements		1,607	(28)
Preference shares	36,553	36,451	
Of which portion eligible for AT1 capital instruments, subject to phase out arrangements		25,213	(29)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		11,238	(30)
Total liabilities	6,317,797	5,915,812	

## Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2015		Cross-referenced to Definition of Capital Components
	Balance sheet in published financial statements	Under regulatory scope of consolidation	
	HK\$m	HK\$m	
Equity			
Share capital	96,052	96,052	
Of which portion eligible for inclusion in CET1 capital		94,598	(31)
Of which revaluation reserve capitalisation issue		1,454	(32)
Other equity instruments	14,737	14,737	
Of which qualifying AT1 capital instruments		14,737	(33)
Other reserves	93,031	91,906	(34)
Of which fair value gains arising from revaluation of land and buildings		52,098	(35)
Of which cash flow hedging reserves		51	(36)
Retained profits	380,381	327,574	(37)
Of which regulatory reserve for general banking risks		27,819	(38)
Of which regulatory reserve eligible for inclusion in Tier 2 capital		12,230	(39)
Of which fair value gains arising from revaluation of land and buildings		4,399	(40)
Total shareholders' equity	584,201	530,269	
Non-controlling interests	51,685	45,968	
Of which portion allowable in CET1 capital		22,352	(41)
Of which portion allowable in AT1 capital		1,382	(42)
Of which portion in AT1 capital, subject to phase out arrangements		9,494	(43)
Total equity	635,886	576,237	
Total equity and liabilities	6,953,683	6,492,049	

**Appendix 3: Liquidity Coverage Ratio Standard Disclosure Template**

The number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components as set out in the following table for the quarter ending on 30 June 2016, 31 March 2016, 30 June 2015 and 31 March 2015 was three.

	Quarter ended 30 June 2016		Quarter ended 31 March 2016	
	Unweighted amount (Average value) HK\$m	Weighted amount (Average value) HK\$m	Unweighted amount (Average value) HK\$m	Weighted amount (Average value) HK\$m
<b>A. High quality liquid assets</b>				
1 Total high quality liquid assets (HQLA)		1,587,029		1,572,652
<b>B. Cash outflows</b>				
2 Retail deposits and small business funding, of which:	2,947,988	275,229	2,895,024	265,813
3 Stable retail deposits and stable small business funding	391,387	19,569	471,677	23,584
4 Less stable retail deposits and less stable small business funding	2,556,601	255,660	2,421,235	242,123
5 Retail term deposits and small business term funding	–	–	2,112	106
6 Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	2,023,810	1,062,190	2,030,154	1,099,889
7 Operational deposits	615,082	148,272	518,636	125,788
8 Unsecured wholesale funding (other than small business funding) not covered in Row 7	1,405,622	910,812	1,508,571	971,154
9 Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	3,106	3,106	2,947	2,947
10 Secured funding transactions (including securities swap transactions)		9,941		11,710
11 Additional requirements, of which:	452,677	149,038	413,168	147,811
12 Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	98,864	98,864	101,689	101,579
13 Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	688	688	634	634
14 Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	353,125	49,486	310,845	45,598
15 Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	109,736	109,736	119,453	119,453
16 Other contingent funding obligations (whether contractual or non-contractual)	2,220,047	14,673	2,148,392	13,589
17 Total cash outflows		<u>1,620,807</u>		<u>1,658,265</u>
<b>C. Cash inflows</b>				
18 Secured lending transactions (including securities swap transactions)	342,790	95,844	200,011	69,129
19 Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	849,167	560,315	901,254	606,525
20 Other cash inflows	171,168	144,647	163,711	137,869
21 Total cash inflows	<u>1,363,125</u>	<u>800,806</u>	<u>1,264,976</u>	<u>813,523</u>
<b>D. Liquidity coverage ratio (Adjusted value)</b>				
22 Total HQLA		1,587,029		1,572,652
23 Total net cash outflows		820,001		844,742
24 LCR (%)		193.6%		186.6%

## Appendix 3: Liquidity Coverage Ratio Standard Disclosure Template (continued)

	Quarter ended 30 June 2015		Quarter ended 31 March 2015	
	Unweighted amount (Average value) HK\$m	Weighted amount (Average value) HK\$m	Unweighted amount (Average value) HK\$m	Weighted amount (Average value) HK\$m
<b>A. High quality liquid assets</b>				
1 Total high quality liquid assets (HQLA)		1,417,970		1,367,500
<b>B. Cash outflows</b>				
2 Retail deposits and small business funding, of which:	2,845,943	274,376	2,738,847	262,591
3 Stable retail deposits and stable small business funding	186,685	9,334	188,439	9,422
4 Less stable retail deposits and less stable small business funding	2,641,575	264,158	2,512,969	251,297
5 Retail term deposits and small business term funding	17,683	884	37,438	1,872
6 Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	2,144,246	1,389,353	2,090,592	1,368,151
7 Operational deposits	–	–	–	–
8 Unsecured wholesale funding (other than small business funding) not covered in Row 7	2,138,244	1,383,351	2,087,796	1,365,355
9 Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	6,002	6,002	2,796	2,796
10 Secured funding transactions (including securities swap transactions)		934		1,016
11 Additional requirements, of which:	379,541	187,961	434,596	238,768
12 Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	142,252	141,279	182,109	181,048
13 Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	–	–	–	–
14 Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	237,289	46,682	252,487	57,720
15 Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	84,818	84,818	90,480	90,480
16 Other contingent funding obligations (whether contractual or non-contractual)	1,862,982	12,281	1,738,986	11,969
17 Total cash outflows		<u>1,949,723</u>		<u>1,972,975</u>
<b>C. Cash inflows</b>				
18 Secured lending transactions (including securities swap transactions)	193,750	75,485	204,074	82,273
19 Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	972,860	687,761	951,911	661,789
20 Other cash inflows	215,408	191,143	255,051	233,587
21 Total cash inflows	<u>1,382,018</u>	<u>954,389</u>	<u>1,411,036</u>	<u>977,649</u>
<b>D. Liquidity coverage ratio (Adjusted value)</b>				
22 Total HQLA		1,417,970		1,367,500
23 Total net cash outflows		995,334		995,326
24 LCR (%)		142.5%		137.4%

## Appendix 4: Leverage Ratio Common Disclosure Template

	Leverage ratio framework	
	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
<b>On-balance sheet exposures</b>		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	5,753,600	5,536,520
2 Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(174,908)	(169,012)
<b>3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>	<b>5,578,692</b>	<b>5,367,508</b>
<b>Derivative exposures</b>		
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	73,661	91,620
5 Add-on amounts for PFE associated with all derivatives transactions	241,916	219,161
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–	–
7 Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	–	–
8 Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	(1,513)	(1,008)
9 Adjusted effective notional amount of written credit derivatives	252,320	211,123
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	(238,915)	(193,992)
<b>11 Total derivative exposures (sum of lines 4 to 10)</b>	<b>327,469</b>	<b>326,904</b>
<b>Securities financing transaction exposures</b>		
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	464,182	334,395
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	–	–
14 CCR exposure for SFT assets	15,759	4,731
15 Agent transaction exposures	–	–
<b>16 Total securities financing transaction exposures (sum of lines 12 to 15)</b>	<b>479,941</b>	<b>339,126</b>
<b>Other off-balance sheet exposures</b>		
17 Off-balance sheet exposure at gross notional amount	2,530,432	2,426,025
18 Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(2,022,516)	(1,944,945)
<b>19 Off-balance sheet items (sum of lines 17 and 18)</b>	<b>507,916</b>	<b>481,080</b>
<b>Capital and total exposures</b>		
20 Tier 1 capital	439,533	418,758
<b>21 Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>6,894,018</b>	<b>6,514,618</b>
<b>Leverage ratio</b>		
22 Basel III leverage ratio	6.38%	6.43%

**Appendix 5: Leverage Ratio Summary Comparison Table**

	Leverage ratio framework	
	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
1 Total consolidated assets as per published financial statements	7,404,171	6,953,683
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(493,301)	(461,634)
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–	–
4 Adjustments for derivative financial instruments	(124,569)	(54,188)
5 Adjustments for securities financing transactions (i.e. repos and similar secured lending)	15,759	4,731
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	507,916	481,080
7 Other adjustments	(415,958)	(409,054)
8 <b>Leverage ratio exposure</b>	<b>6,894,018</b>	<b>6,514,618</b>

Other adjustments mainly represent the Hong Kong Government certificates of indebtedness and assets deducted in determining Basel III Tier 1 capital. These are excluded for deriving the Leverage ratio exposure in accordance with the Leverage Ratio Framework issued by the HKMA.



**Appendix 6: Countercyclical Capital Buffer (CCyB) Ratio Standard Disclosure Template**

The Basel III regulatory capital standards issued by the Basel Committee provide for the implementation of a CCyB beginning on 1 January 2016. The Hong Kong Monetary Authority ('HKMA') set out the CCyB requirement in Part 1B Division 4 of the Banking (Capital) Rules and Section 24B and 45B of the Banking (Disclosures) Rules accordingly.

At 30 June 2016, the applicable jurisdictional ('J') CCyB rate in force in Hong Kong was 0.625% as set by the HKMA. For the rest of the jurisdictions in which the group had private sector credit exposures, the applicable JCCyB rates were either at 0% or had not been announced by the relevant regulators.

The CCyB is calculated as the weighted average of the applicable CCyB rates in effect in the jurisdictions to which banks have private sector credit exposures. The group uses booking country as the basis of geographical allocation for credit risk, and risk country for market risk which is defined by considering the country of incorporation, location of guarantor, headquarter domicile, distribution of revenue together with booking country. The scope of private sector credit exposure is determined in accordance with the ultimate obligor which refers to the credit protection provider of a recognised guarantee or credit derivative contract. Exposures covered by guarantees or credit derivatives are private sector credit exposures only if the credit protection provider is a private obligor.

**Appendix 6: Countercyclical Capital Buffer (CCyB) Ratio Standard Disclosure Template**  
(continued)

Geographical breakdown of risk-weighted assets (RWA) in relation to private sector credit exposures at 30 June 2016.

	<b>Jurisdiction</b>	<b>Applicable CCyB rates in effect %</b>	<b>Total RWA used in computation of CCyB ratio HK\$m</b>	<b>CCyB ratio %</b>	<b>CCyB amount HK\$m</b>
1	Hong Kong SAR	0.625	956,561		
2	Mainland China	–	222,783		
3	Australia	–	70,632		
4	Bahamas	–	22		
5	Bangladesh	–	14,132		
6	Brazil	–	2		
7	Brunei	–	5,330		
8	Canada	–	13		
9	Cayman Islands	–	881		
10	France	–	51		
11	Germany	–	320		
12	India	–	76,566		
13	Indonesia	–	52,289		
14	Japan	–	11,831		
15	Macau SAR	–	19,465		
16	Malaysia	–	72,547		
17	Maldives	–	1,663		
18	Mauritius	–	9,022		
19	Mongolia	–	99		
20	Netherlands	–	43		
21	New Zealand	–	9,305		
22	Philippines	–	11,025		
23	Singapore	–	91,324		
24	South Korea	–	18,466		
25	Sri Lanka	–	14,166		
26	Switzerland	–	14		
27	Taiwan	–	33,273		
28	Thailand	–	14,395		
29	United Kingdom	–	129		
30	United States	–	420		
31	Vietnam	–	13,542		
	<b>Total</b>		<b>1,720,311</b>	<b>0.35</b>	<b>5,979</b>