



The Hongkong and Shanghai Banking  
Corporation Limited

## Interim Disclosure Statement

*prepared under the Banking (Disclosure) Rules  
made pursuant to section 60A of the Banking Ordinance*

Supplementary Notes  
for the six months ended 30 June 2010

The information contained in this document is supplementary to and should be read in conjunction with the 2010 Interim Consolidated Results Press Release issued on 2 August 2010, 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.

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**1. Basis of preparation**

- a.** From 1 January 2009, the group migrated to the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. The group continued to use the internal ratings-based (securitisation) approach to determine credit risk for its securitisation exposures. It also used the standardised (operational risk) approach and standardised (market risk) approach to calculate its operational risk and market risk respectively. An internal models approach was adopted for calculating general market risk, while a separate model is used for calculating the market risk relating to equity options. From 30 March 2009, the group adopted an internal models approach to calculate its market risk in respect of specific risk for the interest rate risk category. There are no changes in the approaches used in 2010.
- b.** Except where indicated otherwise, the financial information contained in this Interim Disclosure Statement and in the 2010 Interim Consolidated Results Press Release has been prepared on a consolidated basis in accordance with accounting principles generally accepted in Hong Kong. Some parts of the information contained in this Statement, however, are required by the Banking (Disclosure) Rules to be prepared on a different basis. In such cases, the Banking (Disclosure) Rules require that certain information is prepared on a basis which excludes some of the subsidiaries of The Hongkong and Shanghai Banking Corporation Limited ('the Bank'). Further information regarding subsidiaries is set out in note 26.
- c.** The accounting policies applied in preparing this document are the same as those applied in preparing the financial statements for the year ended 31 December 2009, as disclosed in the Annual Report and Accounts for 2009, except where otherwise stated in the 2010 Interim Consolidated Results Press Release issued on 2 August 2010.

**2. Net fee income**

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2010</i>	<i>Half-year ended 30 June 2009</i>
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	6,393	5,560
- fee expense	(648)	(557)
	<u>5,745</u>	<u>5,003</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	3,838	2,870
- fee expense	(455)	(258)
	<u>3,383</u>	<u>2,612</u>

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

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2010</i>	<i>Half-year ended 30 June 2009</i>
Loans and receivables	<u>583</u>	<u>274</u>

There are no gains or losses on held-to-maturity investments or financial liabilities measured at amortised cost for the half-year ended 30 June 2010 and 30 June 2009.

**4. Dividend income**

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2010</i>	<i>Half-year ended 30 June 2009</i>
Listed investments	<b>283</b>	29
Unlisted investments	<b>45</b>	103
	<b>328</b>	132

**5. Cash and short-term funds**

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Cash in hand	<b>11,488</b>	11,761
Sight balances with central banks	<b>92,620</b>	79,014
Placing with banks with remaining maturity of one month or less	<b>414,066</b>	441,862
Treasury bills and other eligible bills	<b>342,423</b>	359,538
	<b>860,597</b>	892,175

As at 30 June 2010, included within notes 5 and 6, total amounts placed with central banks by the group were HK\$246,415 million (31 December 2009: HK\$256,074 million).

## 6. Placings with banks

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Placings with banks maturing after one month but not more than one year	<b>121,038</b>	103,252
Placings with banks maturing after one year	<b>3,569</b>	3,818
Placings with banks maturing after one month	<b>124,607</b>	107,070

There are no significant overdue, impaired or rescheduled placings with banks as at 30 June 2010 and 31 December 2009.

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## 7. Certificates of deposit

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Held-to-maturity	<b>5,097</b>	4,458
Available-for-sale	<b>50,249</b>	32,930
	<b>55,346</b>	37,388

**8. Advances to customers**

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

The following analysis of advances to customers is based on the categories contained in the 'Quarterly Analysis of Loans and Advances and Provisions' return required to be submitted to the HKMA by branches of the Bank and by banking subsidiary companies in Hong Kong.

<i>Figures in HK\$m</i>	<u>Gross advances</u>	<u>Collateral and other security</u>
<b>At 30 June 2010</b>		
<b>Industrial, commercial and financial</b>		
Property development	58,810	17,030
Property investment	165,996	122,611
Financial concerns	11,342	1,975
Stockbrokers	3,150	551
Wholesale and retail trade	60,191	16,841
Manufacturing	30,686	6,000
Transport and transport equipment	20,908	14,829
Recreational activities	434	17
Information technology	3,648	23
Others	61,673	19,269
	<u>416,838</u>	<u>199,146</u>
<b>Individuals</b>		
Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme	26,181	26,131
Advances for the purchase of other residential properties	233,468	233,260
Credit card advances	33,350	-
Others	35,133	12,008
	<u>328,132</u>	<u>271,399</u>
Gross advances to customers for use in Hong Kong	744,970	470,545
Trade finance	78,587	21,339
Gross advances to customers for use outside Hong Kong made by branches of the Bank and subsidiary companies in Hong Kong	36,477	1,519
Gross advances to customers made by branches of the Bank and subsidiary companies in Hong Kong	860,034	493,403
Gross advances to customers made by branches of the Bank and subsidiary companies outside Hong Kong	705,541	294,707
Gross advances to customers	<u>1,565,575</u>	<u>788,110</u>

**8. Advances to customers** *(continued)*

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

<i>Figures in HK\$m</i>	<i>Gross advances</i>	<i>Collateral and other security</i>
At 31 December 2009		
<b>Industrial, commercial and financial</b>		
Property development	50,034	15,140
Property investment	144,396	107,472
Financial concerns	9,442	2,203
Stockbrokers	1,155	227
Wholesale and retail trade	46,145	14,199
Manufacturing	27,318	5,597
Transport and transport equipment	21,543	16,036
Recreational activities	330	18
Information technology	5,336	33
Others	49,963	16,212
	<u>355,662</u>	<u>177,137</u>
<b>Individuals</b>		
Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme	26,801	26,619
Advances for the purchase of other residential properties	217,626	217,187
Credit card advances	35,545	-
Others	32,641	12,010
	<u>312,613</u>	<u>255,816</u>
Gross advances to customers for use in Hong Kong	668,275	432,953
Trade finance	54,015	17,297
Gross advances to customers for use outside Hong Kong made by branches of the Bank and subsidiary companies in Hong Kong	28,423	905
Gross advances to customers made by branches of the Bank and subsidiary companies in Hong Kong	750,713	451,155
Gross advances to customers made by branches of the Bank and subsidiary companies outside Hong Kong	614,211	274,986
Gross advances to customers	<u>1,364,924</u>	<u>726,141</u>

**8. Advances to customers** *(continued)*

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

The most common method of mitigating credit risk is to take collateral. Collateral includes any tangible security that has a determinable fair 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 is included. Certain guarantees and credit derivative contracts are also recognised for credit risk mitigation purposes.

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

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
<b>At 30 June 2010</b>			
Gross advances to customers	<u>764,275</u>	<u>801,300</u>	<u>1,565,575</u>
At 31 December 2009			
Gross advances to customers	<u>683,553</u>	<u>681,371</u>	<u>1,364,924</u>



**8. Advances to customers** (*continued*)

*c. Advances to customers and allowances*

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

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
<b>At 30 June 2010</b>			
Gross advances to customers	<b>860,034</b>	<b>705,541</b>	<b>1,565,575</b>
Individually assessed impairment allowances	<b>(3,390)</b>	<b>(4,437)</b>	<b>(7,827)</b>
Collectively assessed impairment allowances	<b>(2,209)</b>	<b>(2,975)</b>	<b>(5,184)</b>
Net advances to customers	<b><u>854,435</u></b>	<b><u>698,129</u></b>	<b><u>1,552,564</u></b>
<b>At 31 December 2009</b>			
Gross advances to customers	750,713	614,211	1,364,924
Individually assessed impairment allowances	(3,724)	(4,364)	(8,088)
Collectively assessed impairment allowances	(2,412)	(3,780)	(6,192)
Net advances to customers	<b><u>744,577</u></b>	<b><u>606,067</u></b>	<b><u>1,350,644</u></b>

**8. Advances to customers** *(continued)*

**d. Individually assessed impaired advances to customers**

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

<i>Figures in HK\$m</i>	<u>Hong Kong</u>	<u>Rest of Asia-Pacific</u>	<u>Total</u>
<b>At 30 June 2010</b>			
Gross individually assessed impaired advances	5,944	8,755	14,699
Individually assessed impairment allowances	<u>(3,390)</u>	<u>(4,437)</u>	<u>(7,827)</u>
	<u>2,554</u>	<u>4,318</u>	<u>6,872</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>0.7%</u>	<u>1.2%</u>	<u>0.9%</u>
Fair value of collateral which has been taken into account in respect of individually assessed impaired advances to customers	<u>1,650</u>	<u>3,163</u>	<u>4,813</u>
<b>At 31 December 2009</b>			
Gross individually assessed impaired advances	6,222	8,330	14,552
Individually assessed impairment allowances	<u>(3,724)</u>	<u>(4,364)</u>	<u>(8,088)</u>
	<u>2,498</u>	<u>3,966</u>	<u>6,464</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>0.8%</u>	<u>1.4%</u>	<u>1.1%</u>
Fair value of collateral which has been taken into account in respect of individually assessed impaired advances to customers	<u>1,879</u>	<u>3,284</u>	<u>5,163</u>

The most common method of mitigating credit risk is to take collateral. Collateral includes any tangible security that has a determinable fair 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 is included. Certain guarantees and credit derivative contracts are also recognised for credit risk mitigation purposes.

**8. Advances to customers** *(continued)*

**d. Individually assessed impaired advances to customers** *(continued)*

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

<i>Figures in HK\$m</i>	<b><i>Total gross advances</i></b>	<b><i>Gross impaired advances</i></b>	<b><i>Individually assessed allowances</i></b>	<b><i>Collectively assessed allowances</i></b>
<b>At 30 June 2010</b>				
Residential mortgages	<b>441,557</b>	<b>2,701</b>	<b>(331)</b>	<b>(259)</b>
Commercial, industrial and international trade	<b>445,595</b>	<b>7,050</b>	<b>(5,254)</b>	<b>(1,897)</b>
Commercial real estate	<b>183,975</b>	<b>1,180</b>	<b>(519)</b>	<b>(64)</b>
<b>At 31 December 2009</b>				
Residential mortgages	413,344	2,772	(323)	(326)
Commercial, industrial and international trade	357,092	8,079	(5,766)	(2,243)
Commercial real estate	155,535	1,339	(560)	(96)

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

**8. Advances to customers** (*continued*)

**e. Overdue advances to customers**

The geographical information shown below and in note 8f has been classified by the location of the principal operations of the subsidiary company or, in the case of the Bank, by the location of the branch responsible for advancing the funds.

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
<b>At 30 June 2010</b>			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- more than three months but not more than six months	386	1,742	2,128
- more than six months but not more than one year	487	1,769	2,256
- more than one year	<u>2,099</u>	<u>3,478</u>	<u>5,577</u>
	<u>2,972</u>	<u>6,989</u>	<u>9,961</u>
Overdue advances to customers as a percentage of gross advances to customers:			
- more than three months but not more than six months	0.0%	0.2%	0.1%
- more than six months but not more than one year	0.1%	0.3%	0.1%
- more than one year	<u>0.2%</u>	<u>0.5%</u>	<u>0.4%</u>
	<u>0.3%</u>	<u>1.0%</u>	<u>0.6%</u>
Individually assessed impairment allowances made in respect of such overdue loans and advances	<u>(1,932)</u>	<u>(3,558)</u>	<u>(5,490)</u>
Fair value of collateral held in respect of overdue advances	<u>863</u>	<u>1,890</u>	<u>2,753</u>

8. Advances to customers (continued)

e. Overdue advances to customers (continued)

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
At 31 December 2009			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- more than three months but not more than six months	583	2,728	3,311
- more than six months but not more than one year	1,206	1,888	3,094
- more than one year	<u>1,963</u>	<u>2,865</u>	<u>4,828</u>
	<u>3,752</u>	<u>7,481</u>	<u>11,233</u>
Overdue advances to customers as a percentage of gross advances to customers:			
- more than three months but not more than six months	0.1%	0.4%	0.2%
- more than six months but not more than one year	0.1%	0.3%	0.2%
- more than one year	<u>0.3%</u>	<u>0.5%</u>	<u>0.4%</u>
	<u>0.5%</u>	<u>1.2%</u>	<u>0.8%</u>
Individually assessed impairment allowances made in respect of such overdue loans and advances	<u>(2,224)</u>	<u>(2,957)</u>	<u>(5,181)</u>
Fair value of collateral held in respect of overdue advances	<u>959</u>	<u>2,123</u>	<u>3,082</u>

The most common method of mitigating credit risk is to take collateral. Collateral includes any tangible security that has a determinable fair 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 is included. Certain guarantees and credit derivative contracts are also recognised for credit risk mitigation purposes.

**8. Advances to customers** (*continued*)

**f. Rescheduled advances to customers**

*Figures in HK\$m*

	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
<b>At 30 June 2010</b>			
Rescheduled advances to customers	<u>1,915</u>	<u>2,683</u>	<u>4,598</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.2%</u>	<u>0.4%</u>	<u>0.3%</u>
<b>At 31 December 2009</b>			
Rescheduled advances to customers	<u>2,379</u>	<u>2,671</u>	<u>5,050</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.3%</u>	<u>0.4%</u>	<u>0.4%</u>

Rescheduled advances to customers are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule.

Rescheduled advances to customers are stated net of any advances which have subsequently become overdue for more than three months and which are included in 'Overdue advances to customers' (note 8e).

## 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 defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return for non-bank Mainland exposures, which includes the Mainland exposures extended by the Bank and its banking subsidiaries in Mainland China.

<i>Figures in HK\$m</i>	<i>On-balance sheet exposure</i>	<i>Off-balance sheet exposure</i>	<i>Total exposures</i>	<i>Specific provisions</i>
<b>At 30 June 2010</b>				
Mainland entities	<b>20,580</b>	<b>11,721</b>	<b>32,301</b>	<b>1</b>
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	<b>40,603</b>	<b>35,876</b>	<b>76,479</b>	<b>726</b>
Other counterparties the exposures to whom are considered by the Bank to be non-bank Mainland exposures	<b>172</b>	<b>3,383</b>	<b>3,555</b>	<b>-</b>
	<b>61,355</b>	<b>50,980</b>	<b>112,335</b>	<b>727</b>
Mainland exposures of wholly- owned Mainland subsidiaries:				
Loans and advances	<b>86,435</b>	<b>2,847</b>	<b>89,282</b>	<b>31</b>
Debt securities and other	<b>42,385</b>	<b>9,189</b>	<b>51,574</b>	<b>-</b>
	<b>128,820</b>	<b>12,036</b>	<b>140,856</b>	<b>31</b>
	<b>190,175</b>	<b>63,016</b>	<b>253,191</b>	<b>758</b>
<b>At 31 December 2009</b>				
Mainland entities	20,155	11,344	31,499	1
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	36,844	36,997	73,841	810
Other counterparties the exposures to whom are considered by the Bank to be non-bank Mainland exposures	155	3,207	3,362	-
	57,154	51,548	108,702	811
Mainland exposures of wholly- owned Mainland subsidiaries:				
Loans and advances	76,607	2,689	79,296	47
Debt securities and other	51,080	9,763	60,843	-
	127,687	12,452	140,139	47
	184,841	64,000	248,841	858

## 10. Cross-border exposures

The country risk exposures in the tables 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 counterparties based on the location of the counterparties after taking into account the transfer of risk.

The tables show claims on individual countries and territories or areas, after recognised risk transfer, amounting to 10 per cent or more 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.

<i>Figures in HK\$m</i>	<i>Banks and other financial institutions</i>	<i>Public sector entities</i>	<i>Others</i>	<i>Total</i>
<b>At 30 June 2010</b>				
<b>Americas</b>				
United States	109,018	108,317	47,752	265,087
Others	17,516	11,214	54,845	83,575
	<u>126,534</u>	<u>119,531</u>	<u>102,597</u>	<u>348,662</u>
<b>Europe</b>				
United Kingdom	190,789	16	13,457	204,262
Others	162,281	45,650	19,383	227,314
	<u>353,070</u>	<u>45,666</u>	<u>32,840</u>	<u>431,576</u>
<b>Asia-Pacific excluding Hong Kong</b>				
China	96,222	4,464	47,136	147,822
Others	119,451	59,449	182,617	361,517
	<u>215,673</u>	<u>63,913</u>	<u>229,753</u>	<u>509,339</u>
<b>At 31 December 2009</b>				
<b>Americas</b>				
United States	124,438	89,352	48,777	262,567
Others	20,249	10,595	45,805	76,649
	<u>144,687</u>	<u>99,947</u>	<u>94,582</u>	<u>339,216</u>
<b>Europe</b>				
United Kingdom	228,935	854	13,247	243,036
Others	182,577	50,833	19,040	252,450
	<u>411,512</u>	<u>51,687</u>	<u>32,287</u>	<u>495,486</u>
<b>Asia-Pacific excluding Hong Kong</b>				
China	69,615	4,620	35,330	109,565
Others	128,018	88,014	143,009	359,041
	<u>197,633</u>	<u>92,634</u>	<u>178,339</u>	<u>468,606</u>



## 11. Financial investments

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Debt securities		
- available-for-sale	<b>651,880</b>	718,195
- held-to-maturity	<b>116,554</b>	106,263
	<b>768,434</b>	824,458
Equity shares		
- available-for-sale	<b>57,568</b>	58,231
	<b>826,002</b>	882,689

There are no significant overdue debt securities as at 30 June 2010 and 31 December 2009.

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## 12. Investments in associates

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Investments in associates	<b>68,155</b>	52,473

### 13. Property, plant and equipment

<i>Figures in HK\$m</i>	<i>Premises</i>	<i>Investment properties</i>	<i>Equipment</i>	<i>Total</i>
<b>At 30 June 2010</b>				
Cost or valuation at 1 January 2010	50,103	3,114	18,460	71,677
Exchange and other adjustments	64	-	66	130
Additions	148	-	601	749
Disposals	(29)	-	(245)	(274)
Elimination of accumulated depreciation on revalued premises	(486)	-	-	(486)
Surplus on revaluation	2,358	153	-	2,511
Reclassifications	(6)	(11)	-	(17)
At 30 June 2010	<u>52,152</u>	<u>3,256</u>	<u>18,882</u>	<u>74,290</u>
Accumulated depreciation at 1 January 2010	11	-	12,856	12,867
Exchange and other adjustments	-	-	26	26
Charge for the period	524	-	1,029	1,553
Disposals	-	-	(213)	(213)
Elimination of accumulated depreciation on revalued premises	(486)	-	-	(486)
At 30 June 2010	<u>49</u>	<u>-</u>	<u>13,698</u>	<u>13,747</u>
Net book value at 30 June 2010	<u>52,103</u>	<u>3,256</u>	<u>5,184</u>	<u>60,543</u>
Net book value at 31 December 2009 (restated <sup>1</sup> )	<u>50,092</u>	<u>3,114</u>	<u>5,604</u>	<u>58,810</u>

<sup>1</sup> Restated for the adoption of Hong Kong Accounting Standard 17 'Leases'. See Note 18 to the 2010 Interim Consolidated Results Press Release issued on 2 August 2010 for further information.

### 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).

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Repossessed assets	<u>91</u>	<u>143</u>

There are no significant overdue other assets as at 30 June 2010 and 31 December 2009.

## 15. Trading liabilities

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Certificates of deposit in issue	2,574	2,545
Other debt securities in issue	17,803	17,708
Short positions in securities	56,224	68,826
Deposits by banks	20,226	3,039
Customer accounts	60,528	62,248
	<u>157,355</u>	<u>154,366</u>

## 16. Financial liabilities designated at fair value

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Deposits by banks	265	253
Customer accounts	1,535	1,604
Subordinated liabilities (note 19)	-	1,003
Debt securities in issue	2,593	-
Liabilities to customers under investment contracts	33,194	33,849
	<u>37,587</u>	<u>36,709</u>

## 17. Debt securities in issue

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Certificates of deposit	21,596	25,090
Other debt securities	16,916	18,306
	<u>38,512</u>	<u>43,396</u>

## 18. Other liabilities and provisions

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Accruals and deferred income	15,576	18,209
Provisions for liabilities and charges	1,193	1,226
Acceptances and endorsements	23,686	22,232
Other liabilities	26,644	14,315
	<u>67,099</u>	<u>55,982</u>

## 19. 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 group for the development and expansion of its business.

<i>Figures in HK\$m</i>		<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
US\$1,200m	Undated floating rate primary capital notes	<b>9,427</b>	9,393
TW\$330m	Non-callable floating rate subordinated notes due 2010	-	80
TW\$1,865m	Non-callable floating rate subordinated notes due 2010*	-	452
<i>Bank</i>		<b>9,427</b>	9,925
A\$200m	Floating rate subordinated notes due 2016, callable from 2011 <sup>1</sup>	<b>1,319</b>	1,396
A\$42m	Floating rate subordinated notes due 2018, callable from 2013 <sup>2</sup>	<b>277</b>	293
HK\$1,500m	Floating rate subordinated notes due 2015, callable from 2010	-	1,499
US\$450m	Floating rate subordinated notes due 2016, callable from 2011 <sup>3</sup>	<b>3,498</b>	3,483
US\$300m	Floating rate subordinated notes due 2017, callable from 2012 <sup>4</sup>	<b>2,330</b>	2,321
RM500m	Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017 <sup>5</sup>	<b>1,207</b>	1,136
RM500m	Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022 <sup>6</sup>	<b>1,219</b>	1,128
TW\$1,865m	Non-callable floating rate subordinated notes due 2010*	<b>450</b>	-
<i>Group</i>		<b>19,727</b>	21,181

\* These subordinated notes were transferred from the Bank's Taiwan Branch to HSBC Bank (Taiwan) Limited following its incorporation during 2010.

<sup>1</sup> The interest rate on the A\$200m callable subordinated floating rate notes 2016 will increase by 0.5 per cent from May 2011.

<sup>2</sup> The interest rate on the A\$42m callable subordinated floating rate notes 2018 will increase by 0.5 per cent from March 2013.

<sup>3</sup> The interest rate on the US\$450m callable subordinated floating rate notes 2016 will increase by 0.5 per cent from July 2011.

<sup>4</sup> The interest rate on the US\$300m callable subordinated floating rate notes 2017 will increase by 0.5 per cent from July 2012.

<sup>5</sup> The interest rate on the 4.35 per cent callable subordinated bonds 2022 will increase by 1 per cent from June 2017.

<sup>6</sup> The interest rate on the 5.05 percent callable subordinated bonds 2027 will increase by 1 per cent from November 2022.

**19. Subordinated liabilities** *(continued)*

The following subordinated notes were classified as 'Financial liabilities designated at fair value' (note 16):

<i>Figures in HK\$m</i>		<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
HK\$1,000m	Callable fixed rate (4.125%) subordinated notes due 2015 <sup>1</sup>	<u>-</u>	<u>1,003</u>

<sup>1</sup> These notes were redeemed during 2010.

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**20. Reserves**

The Bank and its banking subsidiary companies maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes.

At 30 June 2010, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$6,182 million (*31 December 2009: HK\$6,413 million*).

21. Off-balance sheet exposures other than derivatives transactions

<i>Contract amounts in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
<b>Contingent liabilities and commitments</b>		
Direct credit substitutes	<b>45,885</b>	44,774
Transaction-related contingencies	<b>77,357</b>	78,582
Trade-related contingencies	<b>87,554</b>	73,754
Forward asset purchases	<b>3,260</b>	3,103
Forward forward deposits placed	<b>102</b>	816
Commitments that are unconditionally cancellable without prior notice	<b>953,816</b>	916,875
Commitments which have an original maturity of not more than one year	<b>116,508</b>	77,111
Commitments which have an original maturity of more than one year	<b>98,435</b>	86,938
	<b><u>1,382,917</u></b>	<b><u>1,281,953</u></b>
Risk-weighted amounts	<b><u>202,408</u></b>	<b><u>195,566</u></b>

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. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

For the purposes of this Interim Disclosure Statement, acceptances and endorsements are recognised on the balance sheet in 'Other assets' in accordance with Hong Kong Accounting Standard 39 'Financial Instruments: Recognition and Measurement'. For the purpose 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 credit-related instruments. The contract amounts represent the amounts at risk should the contracts be fully drawn upon and the customers default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of expected future cash flows.

## 22. Derivative transactions

### a. Contract amounts of derivative transactions

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Exchange rate contracts	<b>7,084,626</b>	5,398,523
Interest rate contracts	<b>11,789,316</b>	10,531,533
Credit derivative contracts	<b>619,666</b>	612,691
Other over-the-counter ('OTC') derivative contracts	<b>507,607</b>	271,829
	<b><u>20,001,215</u></b>	<u>16,814,576</u>

Derivatives arise from futures, forward, swap and option transactions undertaken by the group in the foreign exchange, interest rate, equity, credit and commodity markets. The contract amounts of these instruments included in the table above indicate the volume of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

### b. Risk exposures to derivative transactions

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Risk- weighted amount</i>	<i>Fair value</i> †
<b>At 30 June 2010</b>			
Exchange rate contracts	<b>6,069,246</b>	<b>33,385</b>	<b>40,429</b>
Interest rate contracts	<b>11,071,721</b>	<b>18,411</b>	<b>21,059</b>
Credit derivative contracts	<b>622,312</b>	<b>1,837</b>	<b>1,070</b>
Other OTC derivative contracts	<b>204,337</b>	<b>1,874</b>	<b>14,393</b>
	<b><u>17,967,616</u></b>	<b><u>55,507</u></b>	<b><u>76,951</u></b>
<b>At 31 December 2009</b>			
Exchange rate contracts	4,658,624	28,853	32,375
Interest rate contracts	9,977,361	14,533	21,334
Credit derivative contracts	621,721	1,731	1,821
Other OTC derivative contracts	118,186	3,067	13,357
	<u>15,375,892</u>	<u>48,184</u>	<u>68,887</u>

† Fair value is calculated after taking into account the effect of valid bilateral netting agreements amounting to HK\$181,339 million at 30 June 2010 (31 December 2009: HK\$161,517 million).

**22. Derivative transactions** *(continued)*

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 requirement of section 98(2) of the Banking Ordinance.

Fair value is a close approximation of the credit risk for these contracts at the balance sheet date. The actual credit risk is measured internally as the sum of positive fair values and an estimate for the future fluctuation risk, using a future risk factor.

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 amount for the capital adequacy ratio.



### 23. Foreign exchange exposure

Foreign exchange exposures may be divided broadly into two categories: structural and non-structural. Structural exposures are normally long-term in nature and include those arising from investments in overseas subsidiaries, branches, associates and strategic investments as well as capital instruments denominated in currencies other than Hong Kong dollars. 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 had the following net structural foreign currency exposures that were not less than 10 per cent of the total net structural positions in all foreign currencies:

	<i>Net structural position</i>	
	<i>LCYm</i>	<i>HK\$m</i>
<b>At 30 June 2010</b>		
Chinese renminbi	<b>98,125</b>	<b>112,675</b>
Indian rupees	<b>162,417</b>	<b>27,232</b>
At 31 December 2009		
Chinese renminbi	95,389	108,347
Indian rupees	150,789	25,073

The group had the following non-structural foreign currency positions that were not less than 10 per cent of the group's net non-structural positions in all foreign currencies:

<i>Figures in HK\$m</i>	<i>United States dollars</i>	<i>Singapore dollars</i>	<i>Brunei dollars</i>	<i>Chinese renminbi</i>
<b>At 30 June 2010</b>				
Spot assets	<b>3,297,918</b>	<b>481,195</b>	<b>91,090</b>	<b>234,311</b>
Spot liabilities	<b>(3,207,466)</b>	<b>(546,707)</b>	<b>(27,505)</b>	<b>(226,058)</b>
Forward purchases	<b>3,813,949</b>	<b>202,746</b>	<b>743</b>	<b>563,275</b>
Forward sales	<b>(3,931,032)</b>	<b>(131,884)</b>	<b>(70,173)</b>	<b>(574,151)</b>
Net options position	<b>14,528</b>	<b>(10)</b>	<b>-</b>	<b>-</b>
	<b>(12,103)</b>	<b>5,340</b>	<b>(5,845)</b>	<b>(2,623)</b>
At 31 December 2009				
Spot assets	3,053,837	247,020	84,729	109,807
Spot liabilities	(3,010,444)	(311,720)	(27,308)	(92,862)
Forward purchases	2,560,540	189,887	170	342,940
Forward sales	(2,632,313)	(120,564)	(62,207)	(361,662)
Net options position	13,870	-	-	-
	<b>(14,510)</b>	<b>4,623</b>	<b>(4,616)</b>	<b>(1,777)</b>

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

## 24. Liquidity ratio

The Banking Ordinance requires banks operating in Hong Kong to maintain a minimum liquidity ratio of 25 per cent, 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.

	<i>Half-year ended</i> <i>30 June</i> <i>2010</i>	<i>Half-year ended</i> <i>30 June</i> <i>2009</i>
The average liquidity ratio for the period was as follows:		
Hong Kong branches of the Bank	<u><b>42.6%</b></u>	<u>50.8%</u>

## 25. Capital adequacy

The following table shows the capital adequacy ratio and the components of the capital base contained in the 'Capital Adequacy Ratio' return submitted to the HKMA by The Hongkong and Shanghai Banking Corporation Limited on a consolidated basis that is specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

There is no relevant capital shortfall in any of the group's subsidiaries as at 30 June 2010 and 31 December 2009 that is not included in its consolidation group for regulatory purposes.

<i>Figures in HK\$m</i>	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
<b>Composition of capital</b>		
<b>Core Capital</b>		
Paid-up ordinary share capital	21,040	21,040
Paid-up irredeemable non-cumulative preference shares	51,809	51,590
Published reserves	131,598	113,618
Profit and loss account	12,586	16,852
Minority interests <sup>†</sup>	21,487	18,902
Less: Deduction from core capital	(19,625)	(19,682)
Less: 50% of total amount of deductible items (@50%) <sup>††</sup>	(42,567)	(35,099)
<b>Total core capital</b>	<b>176,328</b>	<b>167,221</b>
<b>Supplementary Capital</b>		
Property revaluation reserves <sup>†††</sup>	7,977	6,742
Available-for-sale investments revaluation reserves <sup>††††</sup>	3,381	3,961
Unrealised fair value gains from financial instruments designated at fair value through profit or loss	72	34
Regulatory reserve <sup>†††††</sup>	876	937
Collective provisions <sup>††††††</sup>	682	858
Surplus provisions <sup>†††††††</sup>	2,259	2,686
Perpetual subordinated debt	9,426	9,393
Paid-up irredeemable cumulative preference shares	16,587	16,517
Term subordinated debt	11,995	14,406
Paid-up term preference shares	33,096	32,956
Less: 50% of total amount of deductible items (@50%) <sup>††</sup>	(42,567)	(35,099)
<b>Total supplementary capital</b>	<b>43,784</b>	<b>53,391</b>
<b>Capital base</b>	<b>220,112</b>	<b>220,612</b>
<b>Total deductible items<sup>††</sup></b>	<b>85,134</b>	<b>70,198</b>

**25. Capital adequacy** *(continued)*

- ⌘ *After deduction of minority interests in unconsolidated subsidiary companies.*
- ⌘⌘ *Total deductible items are deducted from institution's core capital and supplementary capital.*
- ⌘⌘⌘ *Includes the revaluation surplus on investment properties which is reported as part of retained profits.*
- ⌘⌘⌘⌘ *Includes adjustments made in accordance with guidelines issued by the HKMA.*
- ⌘⌘⌘⌘⌘ *Total regulatory reserve and collective provisions are apportioned between the standardised approach and internal ratings-based approach in accordance with guidelines issued by the HKMA. Those apportioned to the standardised approach are included in the supplementary capital. Those apportioned to the internal ratings-based approach are excluded from the supplementary capital.*
- ⌘⌘⌘⌘⌘⌘ *Surplus provisions represent the excess of the total eligible provisions over the total expected loss amount. Surplus provisions are applicable to non-securitisation exposures calculated by using the internal ratings-based approach.*

The capital ratios on a consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	<i>At 30 June 2010</i>	<i>At 31 December 2009</i>
Capital adequacy ratio	<b>14.7%</b>	16.1%
Core capital ratio	<b>11.7%</b>	12.2%

## 26. Principal subsidiaries and basis of consolidation

The basis of consolidation for accounting purposes is in accordance with Hong Kong Financial Reporting Standards ('HKFRS'). HKFRS is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

The major subsidiaries of the Bank for accounting purposes are:

Hang Seng Bank Limited  
HSBC Bank (China) Company Limited  
HSBC Bank Malaysia Berhad  
HSBC Insurance (Asia) Limited<sup>†</sup>  
HSBC Life (International) Limited<sup>†</sup>  
HSBC Bank (Taiwan) Limited<sup>†</sup>  
HSBC Bank Australia Limited<sup>†</sup>

<sup>†</sup> *Held indirectly*

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 98(2) of the Banking Ordinance. 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 Bank's shareholdings in these subsidiaries are deducted from its core capital and supplementary capital as determined in accordance with Part 3 of the Banking (Capital) Rules. Significant investments in non-subsidiary companies such as associates are deducted from the Bank's core capital and supplementary capital.

With respect to notes 21, 22b and 25, the principal subsidiaries that are not included in the consolidation for regulatory purposes are:

Hang Seng Insurance Company Limited  
HSBC Insurance (Asia Pacific) Holdings Limited  
HSBC Securities Japan Limited  
Hang Seng General Insurance (Hong Kong) Company Limited  
HSBC Securities Brokers (Asia) Limited

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.

## **27. 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 2009 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 1 March 2010. The Annual Report and Accounts for The Hongkong and Shanghai Banking Corporation Limited for the year ended 31 December 2009, which include the statutory accounts, can be obtained on request from Group 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).