



The Hongkong and Shanghai Banking
Corporation Limited

Supplementary Notes Appendices
for the six months ended 30 June 2015

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-Base III treatment, as set out in Schedule 4H to the Banking (Capital) Rules.

	At 30 June 2015		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	
	HK\$m	HK\$m	
Common equity tier 1 (CET1) capital: instruments and reserves			
1 Directly issued qualifying CET1 capital instruments plus any related share premium	94,598		(34)
2 Retained earnings	315,565		(40)+(44)
3 Disclosed reserves	98,293		(37)
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)	22,512		(45)
6 CET1 capital before regulatory deductions	530,968		
CET1 capital: regulatory deductions			
7 Valuation adjustments	1,957		(1)+(2)+(3)+(6)
8 Goodwill (net of associated deferred tax liability)	9,131		(10)+(13)+(16)+(27)
9 Other intangible assets (net of associated deferred tax liability)	5,306	–	(11)+(14)+(17)+(28)
10 Deferred tax assets net of deferred tax liabilities	1,394		(15)+(26)
11 Cash flow hedge reserve	108		(39)
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	853	–	(20)+(21)+(22)+(24)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	43	–	(18)+(29)
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)	38,605	50,624	(5)+(7)+(9)+(12)+(19)-(48)-(49)
20 Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		

Appendix 1: Transition Disclosures Template (continued)

	At 30 June 2015		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	
	HK\$m	HK\$m	
22 Amount exceeding the 15% threshold	Not applicable		
23 Of which significant investments in the common stock of financial sector entities	Not applicable		
24 Of which mortgage servicing rights	Not applicable		
25 Of which deferred tax assets arising from temporary differences	Not applicable		
26 National specific regulatory adjustments applied to CET1 capital	83,846		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	55,001		(38)+(43)
26b Regulatory reserve for general banking risks	28,845		(41)
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	141,243		
29 CET1 capital	389,725		
AT1 capital: instruments			
30 Qualifying AT1 capital instruments plus related share premium	14,737		(36)
31 Of which classified as equity under applicable accounting standards	14,737		(36)
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	25,218		(32)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	12,243		(46)+(47)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	10,814		(47)
36 AT1 capital before regulatory deductions	52,198		
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			
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	25,312		
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	25,312		(48)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43 Total regulatory deductions to AT1 capital	25,312		
44 AT1 capital	26,886		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	416,611		

Appendix 1: Transition Disclosures Template (continued)

	At 30 June 2015		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	
	HK\$m	HK\$m	
Tier 2 capital : instruments and provisions			
46 Qualifying Tier 2 capital instruments plus any related share premium	18,606		(23)
47 Capital instruments subject to phase out arrangements from Tier 2 capital			(25)+(30)+
	24,053		(33)
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)	2,924		(31)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	2,924		(31)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	15,120		(4)+(42)
51 Tier 2 capital before regulatory deductions	60,703		
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	(93)		
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	(25,405)		[(35)+(38)+(43)] 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	25,312		
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	25,312		(49)
57 Total regulatory deductions to Tier 2 capital	3,079		
58 Tier 2 capital	57,624		
59 Total capital (Total capital = Tier 1 + Tier 2)	474,235		
60 Total risk weighted assets	2,723,473		

Appendix 1: Transition Disclosures Template (*continued*)

	At 30 June 2015		Cross-referenced to **
	Component of regulatory capital	Amounts subject to pre-Basel III treatment*	
	HK\$m	HK\$m	
Capital ratios (as a percentage of risk weighted assets)			
61 CET1 capital ratio	14.31%		
62 Tier 1 capital ratio	15.30%		
63 Total capital ratio	17.41%		
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	9.30%		
National minima (if different from Basel 3 minimum)			
69 National CET1 minimum ratio	Not applicable		
70 National Tier 1 minimum ratio	Not applicable		
71 National total capital minimum ratio	Not applicable		
Amounts below the thresholds for deduction (before risk weighting)			
72 Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	14,675		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	42,833		
74 Mortgage servicing rights (net of related tax liability)	Not applicable		
75 Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable		
Applicable caps on the inclusion of provisions in Tier 2 capital			
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardised (credit risk) approach (prior to application of cap)	3,945		
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	3,124		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	19,681		
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	11,996		
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	34,345		
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 2015	
		Hong Kong basis HK\$m	Basel III basis HK\$m
10	Deferred tax assets net of deferred tax liabilities	1,394	86

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)	89,229	87,576
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Explanation

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

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

Remarks:

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

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2014		
	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		(33)
2 Retained earnings	292,147		(39)+(43)
3 Disclosed reserves	104,800		(36)
4 Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable		
Public sector capital injections grandfathered until 1 January 2018	Not applicable		
5 Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidated group)	27,971		(44)
6 CET1 capital before regulatory deductions	519,516		
CET1 capital: regulatory deductions			
7 Valuation adjustments	2,030		(1)+(2)+(5)+(20)
8 Goodwill (net of associated deferred tax liability)	9,407		(9)+(12)+(15)+(26)
9 Other intangible assets (net of associated deferred tax liability)	5,276	–	(10)+(13)+(16)+(27)
10 Deferred tax assets net of deferred tax liabilities	1,485		(14)
11 Cash flow hedge reserve	(182)		(38)
12 Excess of total EL amount over total eligible provisions under the IRB approach	–	–	
13 Gain-on-sale arising from securitization transactions	–		
14 Gains and losses due to changes in own credit risk on fair valued liabilities	596	–	(19)+(21)+(22)+(24)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	89	–	(17)+(28)
16 Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	–	
17 Reciprocal cross-holdings in CET1 capital instruments	–	–	
18 Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
19 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	28,866	100,676	(4)+(6)+(8)+(11)+(18)-(48)-(49)
20 Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22 Amount exceeding the 15% threshold	Not applicable		
23 Of which significant investments in the common stock of financial sector entities	Not applicable		
24 Of which mortgage servicing rights	Not applicable		
25 Of which deferred tax assets arising from temporary differences	Not applicable		
26 National specific regulatory adjustments applied to CET1 capital	80,616		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	52,657		(37)+(42)
26b Regulatory reserve for general banking risks	27,959		(40)
27 Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	1,588		(51)-(50)
28 Total regulatory deductions to CET1 capital	129,771		
29 CET1 capital	389,745		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2014		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	Cross- referenced to **
	HK\$m	HK\$m	
AT1 capital: instruments			
30 Qualifying AT1 capital instruments plus related share premium	14,737		(35)
31 Of which classified as equity under applicable accounting standards	14,737		(35)
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	25,229		(31)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	8,784		(45)+(46)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	5,389		(46)
36 AT1 capital before regulatory deductions	48,750		(50)
AT1 capital: regulatory deductions			
37 Investments in own AT1 capital instruments	–	–	
38 Reciprocal cross-holdings in AT1 capital instruments	–	–	
39 Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
40 Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	–	
41 National specific regulatory adjustments applied to AT1 capital	50,338		
41a Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	50,338		
vii Of which significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	50,338		(48)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43 Total regulatory deductions to AT1 capital	50,338		(51)
44 AT1 capital	–		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	389,745		
Tier 2 capital : instruments and provisions			
46 Qualifying Tier 2 capital instruments plus any related share premium	18,613		(23)
47 Capital instruments subject to phase out arrangements from Tier 2 capital	24,072		(25)+(29)+ (32)
48 Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	6,810		(30)+(47)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	3,297		(30)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	14,957		(3)+(41)
51 Tier 2 capital before regulatory deductions	64,452		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2014		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	Cross-referenced to **
	HK\$m	HK\$m	
Tier 2 capital : regulatory deductions			
52 Investments in own Tier 2 capital instruments	–	–	
53 Reciprocal cross-holdings in Tier 2 capital instruments	–	–	
54 Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
55 Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	3,172	–	(7)
56 National specific regulatory adjustments applied to Tier 2 capital	25,988		
56a Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(24,350)		[(34)+(37)+(42)] x 45%
56b Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	50,338		
vii Of which significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	50,338		(49)
57 Total regulatory deductions to Tier 2 capital	29,160		
58 Tier 2 capital	35,292		
59 Total capital (Total capital = Tier 1 + Tier 2)	425,037		
60 Total risk weighted assets	2,707,931		
Capital ratios (as a percentage of risk weighted assets)			
61 CET1 capital ratio	14.39%		
62 Tier 1 capital ratio	14.39%		
63 Total capital ratio	15.70%		
64 Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.00%		
65 Of which capital conservation buffer requirement	0.00%		
66 Of which bank specific countercyclical buffer requirement	0.00%		
67 Of which G-SIB or D-SIB buffer requirement	0.00%		
68 CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	7.70%		
National minima (if different from Basel 3 minimum)			
69 National CET1 minimum ratio	Not applicable		
70 National Tier 1 minimum ratio	Not applicable		
71 National total capital minimum ratio	Not applicable		
Amounts below the thresholds for deduction (before risk weighting)			
72 Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	10,767		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	41,867		
74 Mortgage servicing rights (net of related tax liability)	Not applicable		
75 Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable		

Appendix 1: Transition Disclosures Template (*continued*)

		At 31 December 2014		
		Component of regulatory capital	Amounts subject to pre- Basel III treatment*	Cross- referenced to **
		HK\$m	HK\$m	
Applicable caps on the inclusion of provisions in Tier 2 capital				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardised (credit risk) approach (prior to application of cap)	3,992		
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	3,201		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	18,478		
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	11,756		
Capital instruments subject to phase-out arrangements				
80	Current cap on CET1 capital instruments subject to phase out arrangements		Not applicable	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	41,256		
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–		
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	39,252		
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–		

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

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

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

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

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

Explanation

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

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

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

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

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

Remarks:

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

Appendix 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 2015, 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 2015		At 31 December 2014	
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m
Assets				
Cash and sight balances at central banks	257,729	257,674	156,475	156,452
Items in the course of collection from other banks	55,847	55,847	21,122	21,122
Hong Kong Government certificates of indebtedness	217,864	217,864	214,654	214,654
Trading assets	363,639	363,269	407,026	406,969
Derivatives	375,485	375,556	389,934	390,045
Financial assets designated at fair value	105,293	1,694	98,195	1,257
Reverse repurchase agreements - non-trading	216,368	119,633	218,901	139,041
Placings with and advances to banks	513,826	499,584	488,313	467,514
Loans and advances to customers	2,880,997	2,874,801	2,815,216	2,809,284
Financial investments	1,549,957	1,295,867	1,456,493	1,223,720
Amounts due from Group companies	204,904	276,950	191,694	250,968
Investments in subsidiaries	–	15,570	–	15,573
Interests in associates and joint ventures	119,973	117,196	116,654	113,915
Goodwill and intangible assets	47,035	11,040	45,078	11,346
Property, plant and equipment	108,121	105,413	104,679	102,712
Deferred tax assets	1,335	1,295	1,436	1,386
Other assets	149,292	129,372	150,876	130,818
Total assets	7,167,665	6,718,625	6,876,746	6,456,776

Appendix 2: Balance Sheet Reconciliation (continued)

	At 30 June 2015		At 31 December 2014	
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m
Liabilities				
Hong Kong currency notes in circulation	217,864	217,864	214,654	214,654
Items in the course of transmission to other banks	82,606	82,606	31,331	31,331
Repurchase agreements - non-trading	13,131	13,131	28,379	28,379
Deposits by banks	213,464	211,999	226,713	226,580
Customer accounts	4,651,473	4,632,733	4,479,992	4,467,372
Trading liabilities	252,062	252,039	215,812	215,812
Derivatives	357,510	357,856	367,128	367,226
Financial liabilities designated at fair value	52,119	15,269	48,834	12,169
Debt securities in issue	42,756	42,756	45,297	45,266
Retirement benefit liabilities	6,156	6,153	5,606	5,603
Amounts due to Group companies	155,657	161,512	135,814	140,523
Other liabilities and provisions	90,394	87,375	87,731	84,431
Liabilities under insurance contracts	329,203	–	310,182	–
Current tax liabilities	6,534	5,378	2,927	2,438
Deferred tax liabilities	19,282	13,088	18,586	12,312
Subordinated liabilities	12,583	12,583	12,832	12,832
Preference shares	36,565	36,459	36,582	36,474
Total liabilities	6,539,359	6,148,801	6,268,400	5,903,402
Equity				
Share capital	96,052	96,052	96,052	96,052
Other equity instruments	14,737	14,737	14,737	14,737
Other reserves	99,678	98,293	107,985	104,800
Retained profits	359,714	308,065	324,811	277,897
Proposed dividend	7,500	7,500	14,250	14,250
Total shareholders' equity	577,681	524,647	557,835	507,736
Non-controlling interests	50,625	45,177	50,511	45,638
Total equity	628,306	569,824	608,346	553,374
Total equity and liabilities	7,167,665	6,718,625	6,876,746	6,456,776

Appendix 2: Balance Sheet Reconciliation *(continued)*

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

Appendix 2: Balance Sheet Reconciliation (continued)

	At 30 June 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	257,729	257,674	
Items in the course of collection from other banks	55,847	55,847	
Hong Kong Government certificates of indebtedness	217,864	217,864	
Trading assets	363,639	363,269	
Of which valuation adjustments		264	(1)
Derivatives	375,485	375,556	
Of which valuation adjustments		757	(2)
Financial assets designated at fair value	105,293	1,694	
Of which valuation adjustments		1	(3)
Reverse repurchase agreements - non-trading	216,368	119,633	
Placings with and advances to banks	513,826	499,584	
Loans and advances to customers	2,880,997	2,874,801	
Of which impairment allowances eligible for inclusion in Tier 2 capital		1,808	(4)
Financial investments	1,549,957	1,295,867	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,603	(5)
Of which valuation adjustments		935	(6)
Amounts due from Group companies	204,904	276,950	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,653	(7)
Of which significant capital investments in financial sector entities exceeding 10% threshold		3,172	(8)
Investments in subsidiaries	–	15,570	
Of which significant capital investment in financial sector entities exceeding 10% threshold		15,570	(9)
Interests in associates and joint ventures	119,973	117,196	
Of which goodwill		4,120	(10)
Of which intangible assets		121	(11)
Of which significant capital investments in financial sector entities exceeding 10% threshold		70,122	(12)
Goodwill and intangible assets	47,035	11,040	
Of which goodwill		5,105	(13)
Of which intangible assets		5,935	(14)
Property, plant and equipment	108,121	105,413	
Deferred tax assets	1,335	1,295	
Of which deferred tax assets net of related tax liabilities		1,390	(15)
Of which deferred tax liabilities related to goodwill	–	(91)	(16)
Of which deferred tax liabilities related to intangibles		(4)	(17)
Other assets	149,292	129,372	
Of which defined benefit pension fund net assets		50	(18)
Of which significant capital investments in financial sector entities exceeding 10% threshold		281	(19)
Total assets	7,167,665	6,718,625	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 30 June 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	217,864	217,864	
Items in the course of transmission to other banks	82,606	82,606	
Repurchase agreements - non-trading	13,131	13,131	
Deposits by banks	213,464	211,999	
Customer accounts	4,651,473	4,632,733	
Trading liabilities	252,062	252,039	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		106	(20)
Derivatives	357,510	357,856	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		771	(21)
Financial liabilities designated at fair value	52,119	15,269	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		(81)	(22)
Debt securities in issue	42,756	42,756	
Retirement benefit liabilities	6,156	6,153	
Amounts due to Group companies	155,657	161,512	
Of which qualifying Tier 2 capital instruments		18,606	(23)
Of which gains and losses due to changes in own credit risk on fair valued liabilities		57	(24)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		3,488	(25)
Other liabilities and provisions	90,394	87,375	
Liabilities under insurance contracts	329,203	–	
Current tax liabilities	6,534	5,378	
Deferred tax liabilities	19,282	13,088	
Of which deferred tax assets net of related tax liabilities		4	(26)
Of which deferred tax liabilities related to goodwill		(3)	(27)
Of which deferred tax liabilities related to intangibles		(746)	(28)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(7)	(29)
Subordinated liabilities	12,583	12,583	
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,324	(30)
Of which portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase out arrangements		2,924	(31)
Preference shares	36,565	36,459	
Of which portion eligible for AT1 capital instruments, subject to phase out arrangements		25,218	(32)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		11,241	(33)
Total liabilities	6,539,359	6,148,801	

Appendix 2: Balance Sheet Reconciliation *(continued)*

	<u>At 30 June 2015</u>		Cross- referenced to Definition of Capital Components
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	
Equity			
Share capital	96,052	96,052	
Of which portion eligible for inclusion in CET1 capital		94,598	(34)
Of which revaluation reserve capitalisation issue		1,454	(35)
Other equity instruments	14,737	14,737	
Of which qualifying AT1 capital instruments		14,737	(36)
Other reserves	99,678	98,293	(37)
Of which fair value gains arising from revaluation of land and buildings		50,670	(38)
Of which cash flow hedging reserves		108	(39)
Retained profits	359,714	308,065	(40)
Of which regulatory reserve for general banking risks		28,845	(41)
Of which regulatory reserve eligible for inclusion in Tier 2 capital		13,312	(42)
Of which fair value gains arising from revaluation of land and buildings		4,331	(43)
Proposed dividend	7,500	7,500	(44)
Total shareholders' equity	577,681	524,647	
Non-controlling interests	50,625	45,177	
Of which portion allowable in CET1 capital		22,512	(45)
Of which portion allowable in AT1 capital		1,429	(46)
Of which portion in AT1 capital, subject to phase out arrangements		10,814	(47)
Total equity	628,306	569,824	
Total equity and liabilities	7,167,665	6,718,625	

Appendix 2: Balance Sheet Reconciliation (continued)

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

Appendix 2: Balance Sheet Reconciliation (continued)

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

Appendix 2: Balance Sheet Reconciliation *(continued)*

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

Appendix 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 31 March 2015 and 30 June 2015 was three.

	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
A. High quality liquid assets				
1 Total high quality liquid assets (HQLA)		1,417,970		1,367,500
B. Cash outflows				
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 with 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 Contracted 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		1,949,723		1,972,975

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
C. Cash inflows				
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	1,382,018	954,389	1,411,036	977,649
D. Liquidity coverage ratio (Adjusted value)				
22 Total HQLA		1,417,970		1,367,500
23 Total net cash outflows		995,334		995,326
24 LCR (%)		142.46%		137.39%

Appendix 4: Leverage Ratio Common Disclosure Template

	Leverage ratio framework	
	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
On-balance sheet exposures		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	5,796,687	5,538,619
2 Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(167,156)	(179,379)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	5,629,531	5,359,240
Derivative exposures		
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	136,923	141,297
5 Add-on amounts for PFE associated with all derivatives transactions	231,086	222,501
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)	(135)	(177)
9 Adjusted effective notional amount of written credit derivatives	165,053	121,543
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	(147,798)	(104,658)
11 Total derivative exposures (sum of lines 4 to 10)	385,129	380,506
Securities financing transaction exposures		
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	309,643	295,840
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	–	–
14 CCR exposure for SFT assets	4,050	990
15 Agent transaction exposures	–	–
16 Total securities financing transaction exposures (sum of lines 12 to 15)	313,693	296,830
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	2,252,615	2,164,747
18 Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(1,787,845)	(1,710,746)
19 Off-balance sheet items (sum of lines 17 and 18)	464,770	454,001
Capital and total exposures		
20 Tier 1 capital	416,611	389,745
21 Total exposures (sum of lines 3, 11, 16 and 19)	6,793,123	6,490,577
Leverage ratio		
22 Basel III leverage ratio	6.13%	6.00%

Appendix 5: Leverage Ratio Summary Comparison Table

	Leverage ratio framework	
	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
1 Total consolidated assets as per published financial statements	7,167,665	6,876,746
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(449,040)	(419,970)
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	9,573	(9,539)
5 Adjustments for securities financing transactions (i.e. repos and similar secured lending)	4,050	990
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	464,770	454,001
7 Other adjustments	(403,895)	(411,651)
8 Leverage ratio exposure	6,793,123	6,490,577

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.