



The Hongkong and Shanghai Banking
Corporation Limited

Supplementary Notes
for the six months ended 30 June 2016

(unaudited)

Supplementary Notes	Page
Introduction	2
1 Basis of preparation	2
2 Net interest income	3
3 Net fee income	3
4 Gains less losses on loans and receivables, held-to-maturity investments and financial liabilities measured at amortised cost	3
5 Dividend income	4
6 Cash and sight balances at central banks	4
7 Placings with and advances to banks	4
8 Loans and advances to customers	5
9 Mainland activities	10
10 International claims	11
11 Financial investments	12
12 Interests in associates	12
13 Property, plant and equipment	13
14 Other assets	13
15 Trading liabilities	14
16 Financial liabilities designated at fair value	14
17 Debt securities in issue	14
18 Subordinated liabilities	15
19 Off-balance sheet exposures other than derivative transactions	16
20 Derivative transactions	16
21 Foreign exchange exposure	18
22 Liquidity information	19
23 Leverage ratio	20
24 Capital instruments	21
25 Capital buffers	22
26 Basis of consolidation	22
27 Statutory accounts	24

Appendices to this document are available in the Regulatory disclosure section of our website:
www.hsbc.com.hk .

Introduction

The information contained in this document (the ‘Supplementary Notes’) is for The Hongkong and Shanghai Banking Corporation Limited (‘the Bank’) and its subsidiaries (together ‘the group’). It is supplementary to, and should be read in conjunction with, the Interim Report 2016 issued on 3 August 2016, available at www.hsbc.com.hk. The Interim Report and these Supplementary Notes (which include the Supplementary Notes, Supplementary Notes Appendices and Regulatory Capital Instruments), taken together, complies with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

References to ‘HSBC’, ‘the Group’ or ‘the HSBC Group’ within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People’s Republic of China is referred to as ‘Hong Kong’. The abbreviations ‘HK\$m’ and ‘HK\$bn’ represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

While the Supplementary Notes are not required to be externally audited, the document has been verified internally in accordance with the group’s policies on disclosure and its financial reporting and governance processes.

1. Basis of preparation

a. The approaches used in calculating the group’s regulatory capital or capital charge are in accordance with the Banking (Capital) Rules. The group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to determine credit risk for its banking book securitisation exposures. For market risk, the group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The group uses the standardised (market risk) approach for calculating other market risk positions as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

b. Except where indicated otherwise, the financial information contained in these Supplementary Notes has been prepared on a consolidated basis. The basis of consolidation for accounting purposes is different from that for regulatory purposes. Further information regarding subsidiaries that are not included in the consolidation for regulatory purposes, which affects certain notes, is set out in note 26.

c. The accounting policies applied in preparing these Supplementary Notes are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2015, as set out in note 3 on the financial statements in the Bank’s *Annual Report and Accounts 2015*.

1. Basis of preparation *(continued)*

- d. Certain comparative figures have not been provided where the current year is the first year of disclosure and provision is impracticable.

2. Net interest income

	Half-year ended 30 June 2016 HK\$m	Half-year ended 30 June 2015 HK\$m
Net interest income includes the following:		
- interest income accrued on impaired financial assets	<u>220</u>	<u>130</u>

3. Net fee income

	Half-year ended 30 June 2016 HK\$m	Half-year ended 30 June 2015 HK\$m
Net fee income includes the following:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at fair value		
- fee income	7,444	8,212
- fee expense	<u>(1,319)</u>	<u>(820)</u>
	<u>6,125</u>	<u>7,392</u>
Net fee income arising from trust and other fiduciary activities where the group holds or invests assets on behalf of its customers		
- fee income	4,140	4,673
- fee expense	<u>(496)</u>	<u>(509)</u>
	<u>3,644</u>	<u>4,164</u>

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

	Half-year ended 30 June 2016 HK\$m	Half-year ended 30 June 2015 HK\$m
Loans and receivables	<u>58</u>	<u>181</u>

There were no gains or losses on held-to-maturity investments or financial liabilities measured at amortised cost for the half-years ended 30 June 2016 and 30 June 2015.

5. Dividend income

	Half-year ended 30 June 2016 HK\$m	Half-year ended 30 June 2015 HK\$m
Listed investments	125	126
Unlisted investments	<u>76</u>	<u>52</u>
	<u>201</u>	<u>178</u>

6. Cash and sight balances at central banks

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Cash in hand	15,048	15,844
Sight balances with central banks	<u>198,552</u>	<u>135,259</u>
	<u>213,600</u>	<u>151,103</u>

At 30 June 2016, the total amount placed with central banks, included within cash and sight balances at central banks, reverse repurchase agreements - non-trading, and placings with and advances to banks, amounted to HK\$374,502m (31 December 2015: HK\$290,052m).

7. Placings with and advances to banks

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Gross placings with and advances to banks		
– maturing within one month	307,489	262,447
– maturing after one month but within one year	121,231	125,165
– maturing after one year	<u>32,891</u>	<u>33,609</u>
	<u>461,611</u>	<u>421,221</u>

There were no significant overdue, impaired or rescheduled placings with and advances to banks at 30 June 2016 and 31 December 2015.

8. Loans and advances to customers

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

The following analysis of the group's loans and advances to customers is based on the categories contained in the 'Quarterly Analysis of Loans and Advances and Provisions – (MA(BS)2A)' return required to be submitted to the HKMA by branches of the Bank and by banking subsidiaries in Hong Kong.

	Gross Advances		Collateral and other security	
	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Gross loans and advances to customers for use in Hong Kong				
<i>Industrial, commercial and financial</i>				
Property development	91,694	87,696	34,147	34,282
Property investment	238,813	240,018	175,842	182,025
Financial concerns	59,175	55,658	34,814	36,968
Stockbrokers	8,882	6,685	1,938	1,133
Wholesale and retail trade	89,762	94,460	23,543	22,996
Manufacturing	45,300	47,486	10,869	12,720
Transport and transport equipment	38,617	43,566	24,855	25,654
Recreational activities	1,158	718	558	288
Information technology	20,154	17,356	1,738	1,465
Others	102,391	108,466	50,815	51,096
	695,946	702,109	359,119	368,627
<i>Individuals</i>				
Advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	28,517	27,702	28,517	27,702
Advances for the purchase of other residential properties	416,716	413,768	416,711	413,753
Credit card advances	51,789	55,353	–	–
Others	75,166	74,999	37,213	38,043
	572,188	571,822	482,441	479,498
Gross loans and advances to customers for use in Hong Kong	1,268,134	1,273,931	841,560	848,125
Trade finance	150,755	166,107	33,653	34,697
Gross loans and advances to customers for use outside Hong Kong	1,328,075	1,333,781	483,921	473,317
Gross loans and advances to customers	2,746,964	2,773,819	1,359,134	1,356,139

8. Loans and advances to customers (continued)**b. Impairment allowances on loans and advances to customers**

Impaired loans and advances to customers are those loans and advances where objective evidence exists that full repayment of principal or interest is considered unlikely. Individually assessed allowances are made after taking into account the value of collateral, in respect of such loans and advances.

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

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Total HK\$m
At 30 June 2016			
Gross loans and advances to customers			
Individually assessed impaired gross loans and advances	6,635	13,146	19,781
Collectively assessed	1,655,610	1,071,573	2,727,183
Impaired loans and advances	683	979	1,662
Non-impaired loans and advances	1,654,927	1,070,594	2,725,521
Total gross loans and advances to customers	<u>1,662,245</u>	<u>1,084,719</u>	<u>2,746,964</u>
Impairment allowances	(4,154)	(8,576)	(12,730)
Individually assessed	(2,314)	(5,548)	(7,862)
Collectively assessed	(1,840)	(3,028)	(4,868)
Net loans and advances	<u>1,658,091</u>	<u>1,076,143</u>	<u>2,734,234</u>
Fair value of collateral which has been taken into account in respect of individually assessed impaired loan and advances to customers	3,921	5,591	9,512
Individually assessed impaired gross loans and advances as a percentage of gross loans and advances to customers	0.4%	1.2%	0.7%
Total allowances as a percentage of total gross loans and advances	0.3%	0.8%	0.5%
At 31 December 2015			
Gross loans and advances to customers			
Individually assessed impaired gross loans and advances	5,781	11,005	16,786
Collectively assessed	1,674,227	1,082,806	2,757,033
Impaired loans and advances	728	889	1,617
Non-impaired loans and advances	1,673,499	1,081,917	2,755,416
Total gross loans and advances to customers	<u>1,680,008</u>	<u>1,093,811</u>	<u>2,773,819</u>
Impairment allowances	(4,144)	(7,385)	(11,529)
Individually assessed	(2,165)	(4,875)	(7,040)
Collectively assessed	(1,979)	(2,510)	(4,489)
Net loans and advances	<u>1,675,864</u>	<u>1,086,426</u>	<u>2,762,290</u>
Fair value of collateral which has been taken into account in respect of individually assessed impaired loan and advances to customers	2,360	5,153	7,513
Individually assessed impaired gross loans and advances as a percentage of gross loans and advances to customers	0.3%	1.0%	0.6%
Total allowances as a percentage of total gross loans and advances	0.2%	0.7%	0.4%

8. Loans and advances to customers *(continued)***b. Impairment allowances on loans and advances to customers** *(continued)*

For individually assessed customer loans and advances where the industry sector comprises not less than 10% of the group's total gross loans and advances to customers, the analysis of gross impaired loans and advances and allowances by major industry sectors based on categories and definitions used by the HSBC Group is as follows:

	Total gross loans and advances HK\$m	Gross impaired advances HK\$m	Individually assessed allowances HK\$m	Collectively assessed ¹ allowances ¹ HK\$m
At 30 June 2016				
Residential mortgages	747,221	1,914	(185)	(71)
Commercial, industrial and international trade	785,582	10,687	(5,181)	(2,048)
At 31 December 2015				
Residential mortgages	733,225	1,735	(169)	(55)
Commercial, industrial and international trade	825,183	8,543	(4,513)	(2,110)

¹ Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant.

8. Loans and advances to customers (continued)**c. Overdue and rescheduled loans and advances to customers**

	Hong Kong		Rest of Asia-Pacific		Total	
	HK\$m	% ¹	HK\$m	% ¹	HK\$m	% ¹
At 30 June 2016						
Gross amounts which have been overdue with respect to either principal or interest for						
– more than three months but less than six months	1,115	0.1	1,840	0.2	2,955	0.1
– more than six months but less than one year	1,703	0.1	1,461	0.1	3,164	0.1
– more than one year	2,741	0.2	3,425	0.3	6,166	0.2
	5,559	0.4	6,726	0.6	12,285	0.4
Individually assessed impairment allowances made in respect of amounts overdue	(1,451)		(3,540)		(4,991)	
Fair value of collateral held in respect of amounts overdue	2,255		2,444		4,699	
Rescheduled loans and advances to customers	467	0.0	4,155	0.4	4,622	0.2
At 31 December 2015						
Gross amounts which have been overdue with respect to either principal or interest for						
– more than three months but less than six months	1,081	0.1	1,712	0.2	2,793	0.1
– more than six months but less than one year	1,698	0.1	1,268	0.1	2,966	0.1
– more than one year	2,344	0.1	2,951	0.3	5,295	0.2
	5,123	0.3	5,931	0.6	11,054	0.4
Individually assessed impairment allowances made in respect of amounts overdue	(1,609)		(3,355)		(4,964)	
Fair value of collateral held in respect of amounts overdue	1,643		1,820		3,463	
Rescheduled loans and advances to customers	409	0.0	3,134	0.3	3,543	0.1

¹ Percentages shown are of gross loans and advances to customers.

8. Loans and advances to customers *(continued)***c. Overdue and rescheduled loans and advances to customers** *(continued)*

Rescheduled loans and advances to customers are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule. Rescheduled loans and advances to customers are stated net of any loans and advances which have subsequently become overdue for more than three months and which are included in 'Overdue loans and advances to customers'.

d. Analysis of loans and advances to customers by geographical areas according to the location of counterparties, after recognised risk transfer

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Other HK\$m	Total HK\$m
At 30 June 2016				
Gross loans and advances to customers	<u>1,354,459</u>	<u>1,174,318</u>	<u>218,187</u>	<u>2,746,964</u>
At 31 December 2015				
Gross loans and advances to customers	<u>1,371,783</u>	<u>1,194,267</u>	<u>207,769</u>	<u>2,773,819</u>

e. Collateral

The most common method of mitigating credit risk is to take collateral. Collateral disclosed in notes 8a, 8b and 8c includes any tangible security that has a determinable market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance has been included.

9. Mainland activities

The analysis of mainland activities 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's 'Return of Mainland Activities - (MA(BS)20)', which includes the mainland exposures extended by the Bank's Hong Kong offices and wholly owned banking subsidiaries in mainland China.

	On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	Total exposures HK\$m
At 30 June 2016			
Types of Counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	187,348	9,150	196,498
2. Local governments, local government-owned entities and their subsidiaries and JVs	36,822	7,022	43,844
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	226,994	26,177	253,171
4. Other entities of central government not reported in item 1 above	5,511	926	6,437
5. Other entities of local governments not reported in item 2 above	3,710	1,175	4,885
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	61,642	6,764	68,406
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	54,407	5,676	60,083
Total	576,434	56,890	633,324
Total assets after provision	4,413,600		
On-balance sheet exposures as percentages of total assets	13.06%		
At 31 December 2015			
Types of Counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	191,692	10,303	201,995
2. Local governments, local government-owned entities and their subsidiaries and JVs	45,911	6,866	52,777
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	221,513	27,012	248,525
4. Other entities of central government not reported in item 1 above	10,317	763	11,080
5. Other entities of local governments not reported in item 2 above	6,736	1,125	7,861
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	73,418	7,644	81,062
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	61,189	3,333	64,522
Total	610,776	57,046	667,822
Total assets after provision	4,022,835		
On-balance sheet exposures as percentages of total assets	15.18%		

10. International claims

The group's country risk exposures in the table below are prepared in accordance with the HKMA's 'Return of International Banking Statistics - (MA(BS)21)' guidelines. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the group's total international claims.

	Banks HK\$m	Official sector HK\$m	Non-bank financial institutions HK\$m	Non- financial private sector HK\$m	Others HK\$m	Total HK\$m
At 30 June 2016						
Developed countries	522,491	477,103	199,959	238,986	121	1,438,660
of which: United States	55,244	181,001	52,516	58,230	–	346,991
Offshore centres	107,394	10,324	61,019	381,047	896	560,680
Developing Asia and Pacific	382,464	120,916	45,558	372,149	100	921,187
of which: mainland China	282,126	58,812	20,042	188,292	100	549,372
At 31 December 2015						
Developed countries	461,536	503,088	154,330	239,419	–	1,358,373
of which: United States	47,871	253,652	28,895	50,599	–	381,017
Offshore centres	83,297	8,719	57,780	401,698	839	552,333
Developing Asia and Pacific	398,275	89,010	41,544	386,748	177	915,754
of which: mainland China	310,337	49,652	17,875	202,518	117	580,499

11. Financial investments

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Treasury and other eligible bills – available-for-sale	642,206	691,636
Debt securities, excluding certificates of deposits – held-to-maturity	235,032	215,998
– available-for-sale	803,959	710,709
Certificates of deposit – held-to-maturity	8,564	12,601
– available-for-sale	70,101	76,037
Equity shares – available-for-sale	8,675	9,065
	<u>1,768,537</u>	<u>1,716,046</u>

There were no overdue debt securities at 30 June 2016 and 31 December 2015.

12. Interests in associates

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Interests in associates	<u>122,560</u>	<u>121,929</u>

13. Property, plant and equipment

	Land and buildings HK\$m	Investment properties HK\$m	Equipment HK\$m	Total HK\$m
Cost or valuation				
At 1 January 2016	94,000	10,716	24,539	129,255
Exchange and other adjustments	57	(1)	96	152
Additions	215	–	882	1,097
Disposals	(2)	–	(330)	(332)
Elimination of accumulated depreciation on revalued land and buildings	(1,243)	–	–	(1,243)
Surplus on revaluation	1,570	(25)	–	1,545
Reclassifications	(304)	304	–	–
At 30 June 2016	<u>94,293</u>	<u>10,994</u>	<u>25,187</u>	<u>130,474</u>
Accumulated depreciation				
At 1 January 2016	167	–	19,024	19,191
Exchange and other adjustments	8	–	78	86
Charge for the period	1,288	–	1,006	2,294
Disposals	–	–	(314)	(314)
Elimination of accumulated depreciation on revalued land and buildings	(1,243)	–	–	(1,243)
At 30 June 2016	<u>220</u>	<u>–</u>	<u>19,794</u>	<u>20,014</u>
Net book value at 30 June 2016	<u>94,073</u>	<u>10,994</u>	<u>5,393</u>	<u>110,460</u>
Net book value at 31 December 2015	<u>93,833</u>	<u>10,716</u>	<u>5,515</u>	<u>110,064</u>

14. Other assets

Included in the balance sheet within ‘Other assets’ are, *inter alia*, repossessed assets which are non-financial assets acquired in exchange for loans in order to achieve an orderly realisation, and are reported at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowance).

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Repossessed assets	<u>245</u>	<u>147</u>

There were no significant overdue other assets at 30 June 2016 and 31 December 2015.

15. Trading liabilities

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Certificates of deposit in issue	1,720	1,770
Other debt securities in issue	22,876	18,387
Short positions in securities	71,203	60,488
Deposits by banks	23,321	12,504
Customer accounts	<u>100,179</u>	<u>98,702</u>
	<u>219,299</u>	<u>191,851</u>

16. Financial liabilities designated at fair value

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Debt securities in issue	16,173	14,721
Liabilities to customers under investment contracts	<u>36,251</u>	<u>36,049</u>
	<u>52,424</u>	<u>50,770</u>

17. Debt securities in issue

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Certificates of deposit	5,727	6,181
Other debt securities	<u>32,503</u>	<u>34,678</u>
	<u>38,230</u>	<u>40,859</u>

The above debt securities in issue are carried at amortised cost.

18. Subordinated liabilities

Subordinated liabilities consist of undated primary capital notes and other loan capital having an original term to maturity of five years or more.

		At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
US\$400m	Undated floating rate primary capital notes ¹	3,104	6,204
MYR500m	Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017 ²	971	897
MYR500m	Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022 ³	979	902
		<u>5,054</u>	<u>8,003</u>

1 *In February 2016, the group redeemed US\$400m undated floating rate primary capital notes at par.*

2 *The interest rate on the MYR500m 4.35% callable subordinated bonds due 2022 will increase by 1% from June 2017.*

3 *The interest rate on the MYR500m 5.05% callable subordinated bonds due 2027 will increase by 1% from November 2022.*

4 *Subordinated liabilities issued to Group entities are not included in the above.*

19. Off-balance sheet exposures other than derivative transactions*Contingent liabilities and commitments*

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Contract amounts		
Direct credit substitutes	74,005	69,988
Transaction-related contingencies	159,402	152,810
Trade-related contingencies	95,106	99,461
Forward asset purchases	2,079	2,135
Forward forward deposits placed	861	1,615
Commitments that are unconditionally cancellable without prior notice	1,941,169	1,879,081
Commitments which have an original maturity of not more than one year	57,999	52,023
Commitments which have an original maturity of more than one year	199,273	168,258
	<u>2,529,894</u>	<u>2,425,371</u>
Risk-weighted amounts	<u>279,321</u>	<u>264,216</u>

The table above gives the nominal contract amounts and risk-weighted amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by the group. The return is prepared on a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in 'Other assets' in accordance with HKAS 39 'Financial Instruments: Recognition and Measurement'. For the purposes of the Banking (Capital) Rules, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

20. Derivative transactions**a. Contract amounts of derivative transactions**

	At 30 June 2016 HK\$m	At 31 December 2015 HK\$m
Exchange rate	18,502,876	16,244,000
Interest rate	17,193,925	16,265,745
Credit	519,813	432,544
Equity, commodity and other	820,955	807,244
	<u>37,037,569</u>	<u>33,749,533</u>

The notional contract amounts of derivatives held indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

b. Risk exposures to derivative transactions

	Contract amount HK\$m	Risk- weighted amount HK\$m	Fair value HK\$m
At 30 June 2016			
Exchange rate	16,375,637	64,996	89,249
Interest rate	16,666,437	17,738	37,117
Credit derivative	518,442	2,036	507
Equity, commodity and other	598,459	5,112	11,499
	<u>34,158,975</u>	<u>89,882</u>	<u>138,372</u>
At 31 December 2015			
Exchange rate	14,894,259	76,539	85,431
Interest rate	15,883,929	14,422	27,616
Credit derivative	431,097	1,419	330
Equity, commodity and other	637,077	7,218	15,232
	<u>31,846,362</u>	<u>99,598</u>	<u>128,609</u>

The table above gives the contract amounts, the risk-weighted amounts and the fair value of derivative exposures. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA. The return is prepared on a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

Fair value is a close approximation of the credit risk for these contracts at the balance sheet date. Credit risk for risk-weighting is measured as the sum of positive fair values and an estimate for the future fluctuation risk, using a future risk factor. Fair value is calculated after taking into account the effect of valid bilateral netting agreements amounting to HK\$361,371m at 30 June 2016 (31 December 2015: HK\$295,375m).

The netting benefits represent amounts where the group has in place legally enforceable rights of offset with individual counterparties to offset the gross amount of positive mark-to-market assets with any negative mark-to-market liabilities with the same customer. These offsets are recognised by the HKMA in the calculation of risk-weighted amounts for the capital adequacy ratio.

21. Foreign exchange exposure

Foreign exchange exposures may be divided broadly into two categories: structural and non-structural. Structural foreign exchange exposures represent net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than the HK dollar. An entity's functional currency is that of the primary economic environment in which the entity operates. Non-structural exposures arise primarily from trading positions and balance sheet management activities. Non-structural exposures can arise and change rapidly. Foreign currency exposures are managed in accordance with the group's risk management policies and procedures.

The group's foreign exchange exposures in the tables below are prepared in accordance with the HKMA return 'Foreign Currency Position Return - (MA(BS)6)'.

The group had the following net structural foreign currency exposures that were not less than 10% of total net structural foreign currency positions:

	<u>Net structural position</u>	
	LCYm	HK\$m
At 30 June 2016		
Renminbi	161,277	188,284
At 31 December 2015		
Renminbi	156,567	186,866

The group had the following non-structural foreign currency positions that were not less than 10% of the net non-structural positions in all foreign currencies in either year:

	United States dollars HK\$m	Singapore dollars HK\$m	Brunei dollars HK\$m	Renminbi HK\$m
As 30 June 2016				
Spot assets	1,794,845	302,539	10,437	592,878
Spot liabilities	(2,043,002)	(273,609)	(10,187)	(537,482)
Forward purchases	9,693,299	216,328	157	2,546,366
Forward sales	(9,412,668)	(246,141)	(160)	(2,618,989)
Net options positions	(11,823)	(8)	-	12,300
Net long/(net short) position	20,651	(891)	247	(4,927)
As 31 December 2015				
Spot assets	1,755,460	214,592	11,405	601,725
Spot liabilities	(1,886,435)	(185,277)	(15,168)	(576,803)
Forward purchases	8,316,811	156,565	212	2,603,843
Forward sales	(8,172,575)	(182,482)	(190)	(2,628,291)
Net options positions	5,232	(9)	-	(3,170)
Net long/(net short) position	18,493	3,389	(3,741)	(2,696)

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

22. Liquidity information

The Banking (Liquidity) Rules were introduced by the HKMA in 2014 and became effective from 1 January 2015. Under rule 11(1), the group is required to calculate its Liquidity Coverage Ratio ('LCR') on a consolidated basis. During 2016 the group is required to maintain an LCR of not less than 70%, increasing in steps of 10% each year to not less than 100% by January 2019. The average LCRs for the period are as follows:

	Quarter ended			
	30 June 2016 %	31 March 2016 %	30 June 2015 %	31 March 2015 %
Average Liquidity Coverage Ratio	193.6	186.6	142.5	137.4

The liquidity position of the group remained strong in the first half of 2016. The average LCR increased from 142.5% for the quarter ending 30 June 2015 to 193.6% for the quarter ending 30 June 2016, mainly as a result of a change in reporting to include a wider population of deposits as operational in nature in accordance with the Banking (Liquidity) Rules. In addition, the increase in customer deposits exceeded the growth in loans and advances to customers, the surplus of which was deployed into high quality liquid assets ('HQLA').

The majority of HQLA included in the LCR are Level 1 assets as defined in the Banking (Liquidity) Rules, which consist mainly of government debt securities.

	Weighted amount (Average value for the quarter ended)			
	30 June 2016 HK\$m	31 March 2016 HK\$m	30 June 2015 HK\$m	31 March 2015 HK\$m
Level 1 assets	1,512,512	1,510,252	1,368,320	1,324,230
Level 2A assets	64,381	55,134	41,658	35,956
Level 2B assets	10,136	7,266	7,992	7,314
Total weighted amount of HQLA	1,587,029	1,572,652	1,417,970	1,367,500

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We also issue wholesale securities (secured or unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

The group allows currency mismatches to provide some flexibility in managing the balance sheet structure and to carry out foreign exchange trading, on the basis that there is sufficient liquidity in the swap market to support currency conversion in periods of stress. The group sets limits on cash flow projection for all material currencies based on liquidity in the swap markets. These limits are approved and monitored by Asset and Liability Management Committee.

22. Liquidity information *(continued)*

Most of the group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant Credit Support Annex ('CSA') contracts), the additional collateral required to post in the event of a three-notch downgrade in credit ratings is immaterial.

Information relating to the Bank's approach to liquidity risk management and its interaction with the HSBC Group's Asset, Liability and Capital Management function can be found in the Risk Report of the Bank's *Annual Report and Accounts 2015*.

Further details of the group's liquidity information disclosures are set out in Appendix 3 'Liquidity Coverage Ratio Standard Disclosure Template' of the Supplementary Notes Appendices, which is available in the Regulatory disclosure section of our website: www.hsbc.com.hk.

23. Leverage ratio

The following table shows the group's leverage ratio, as calculated under regulatory scope of consolidation.

	At 30 June 2016 %	At 31 December 2015 %
Leverage ratio	<u>6.4</u>	<u>6.4</u>
<i>Capital and leverage ratio exposure measure</i>		
	HK\$m	HK\$m
Tier 1 capital	439,533	418,758
Total exposure measure	6,894,018	6,514,618

The leverage ratio remained stable from 31 December 2015 to 30 June 2016.

Further details regarding the group's leverage positions are set out in Appendix 4 'Leverage Ratio Common Disclosure Template' and Appendix 5 'Leverage Ratio Summary Comparison Table' of the Supplementary Notes Appendices, which is available in the Regulatory disclosure section of our website: www.hsbc.com.hk.

24. Capital instruments

The following is a summary of the group's common equity tier 1 ('CET1') capital, additional tier 1 ('AT1') capital and tier 2 capital instruments.

	At 30 June 2016	
	Issued/par value	Amount recognised in regulatory capital HK\$m
CET1 capital instruments		
Ordinary shares:		
45,743,491,798 issued and fully paid ordinary shares	HK\$114,359m	112,905
AT1 capital instruments		
Floating rate perpetual subordinated loans, callable from 2019	US\$1,900m	14,737
Perpetual non-cumulative preference shares	US\$3,253m	25,240
Tier 2 capital instruments		
Perpetual cumulative preference shares	US\$200m	1,552
Primary capital undated floating rate notes	US\$400m	3,104
Subordinated loan due 2022	US\$300m	2,328
Subordinated loan due 2023	US\$500m	3,879
Subordinated loan due 2024, callable from 2019	US\$1,600m	12,414
Subordinated loan due 2025, callable from 2020	US\$180m	1,397
Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017	MYR500m	822
Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022	MYR500m	829
		21,669
At 31 December 2015		
	Issued/par value	Amount recognised in regulatory capital HK\$m
CET1 capital instruments		
Ordinary shares:		
38,420,982,901 issued and fully paid ordinary shares	HK\$96,052m	94,598
AT1 capital instruments		
Floating rate perpetual subordinated loans, callable from 2019	US\$1,900m	14,737
Perpetual non-cumulative preference shares	US\$3,253m	25,213
Tier 2 capital instruments		
Perpetual cumulative preference shares	US\$400m	3,100
Cumulative preference shares due 2024	US\$1,050m	8,138
Primary capital undated floating rate notes	US\$800m	6,204
Subordinated loan due 2022	US\$300m	2,325
Subordinated loan due 2023	US\$500m	3,875
Subordinated loan due 2024, callable from 2019	US\$1,600m	12,401
Subordinated loan due 2025, callable from 2020	US\$180m	1,395
Fixed rate (4.35%) subordinated bonds due 2022, callable from 2017	MYR500m	801
Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022	MYR500m	806
		21,603

A description of the main features and the full terms and conditions of the group's capital instruments can be found in the Regulatory disclosure section of our website: www.hsbc.com.hk.

25. Capital buffers

Under the Banking (Capital) Rules, the Basel III capital buffer requirements have been implemented in Hong Kong with phase-in from 2016 to 2019. The following are the applicable ratios for the group under regulatory scope of consolidation.

	At 30 June 2016 %
Capital conservation buffer ratio	0.6
Countercyclical capital buffer ratio	0.4
Higher loss absorbency ratio	<u>0.6</u>
Total	<u>1.6</u>

Further details regarding the group's countercyclical capital buffer ratio are set out in Appendix 6 'Countercyclical Capital Buffer Ratio Standard Disclosure Template' of the Supplementary Notes Appendices, which is available in the Regulatory disclosure section of our website: www.hsbc.com.hk.

26. Basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ('HKFRSs'), as described in note 1 on the financial statements in the Bank's *Annual Report and Accounts 2015*.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Banking (Capital) Rules. Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The capital invested by the group in these subsidiaries is deducted from the capital base as determined in accordance with Part 3 of the Banking (Capital) Rules.

26. Basis of consolidation (*continued*)

A list of these subsidiaries is shown below:

	Principal activity	At 30 June 2016		At 31 December 2015	
		Total assets HK\$m	Total equity HK\$m	Total assets HK\$m	Total equity HK\$m
HSBC Broking Futures (Hong Kong) Ltd	Futures broking	2,085	592	2,915	589
HSBC Broking Services (Asia) Ltd and its subsidiaries	Broking services	16,845	3,095	16,806	3,014
HSBC Corporate Advisory (Malaysia) Sdn Bhd	Financial services	3	2	6	5
HSBC Global Asset Management Holdings (Bahamas) Ltd	Asset management	125	124	124	124
HSBC Global Asset Management (Hong Kong) Ltd	Asset management	548	317	617	363
HSBC Investment Funds (Hong Kong) Ltd	Asset management	419	157	319	157
HSBC Global Asset Management (Japan) K.K.	Asset management	164	99	146	76
HSBC Global Asset Management (Singapore) Ltd	Asset management	86	61	92	55
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	Insurance	329,229	25,660	305,340	22,207
HSBC InvestDirect (India) Ltd and its subsidiaries	Financial services	636	503	637	497
HSBC Securities (Asia) Ltd and its subsidiaries	Broking services	424	422	435	421
HSBC Securities (Japan) Ltd	Broking services	108,199	1,500	95,063	1,213
HSBC Securities (Singapore) Pte Ltd	Broking services	687	63	174	60
HSBC Securities Brokers (Asia) Ltd	Broking services	11,283	4,317	10,094	4,264
Hang Seng Futures Ltd	Futures broking	102	102	102	102
Hang Seng Insurance Co. Ltd and its subsidiaries	Insurance	118,050	9,074	112,857	9,139
Hang Seng Investment Management Ltd	Asset management	1,146	1,075	946	910
Hang Seng Investment Services Ltd	Investment services	9	9	9	9
Hang Seng Securities Ltd	Broking services	3,257	1,656	2,493	1,596

For insurance entities, the figures shown above exclude deferred acquisition cost assets as these are derecognised for consolidation purposes due to the recognition of the present value of in-force long-term insurance business ('PVIF') on long-term insurance contracts and investment contracts with discretionary participation features at group level. The PVIF asset of HK\$40,651m (31 December 2015: HK\$36,897m) and the related deferred tax liability, however, are recognised at the consolidated group level only, and are therefore also not included in the asset or equity positions for the standalone entities shown above.

There are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but where the method of consolidation differs at 30 June 2016 and 31 December 2015.

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation at 30 June 2016 and 31 December 2015.

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 2015 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 22 February 2016. The *Annual Report and Accounts* for The Hongkong and Shanghai Banking Corporation Limited for the year ended 31 December 2015, which include the statutory accounts, can be obtained on request from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website: www.hsbc.com.hk .