



The Hongkong and Shanghai Banking
Corporation Limited

Supplementary Notes Appendices
for the six months ended 30 June 2014

Appendices

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Appendix 1: Transition Disclosures Template

The following table sets out the detailed composition of the group's regulatory capital using the Transition Disclosures Template as specified by the Hong Kong Monetary Authority ('HKMA'). The table also shows those items that are currently benefiting from the Basel III transitional arrangements, and are consequently subject to the pre-Basel III treatment, as set out in Schedule 4H to the Banking (Capital) Rules.

	At 30 June 2014		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		(35)
2 Retained earnings	280,028		(40)+(44)
3 Disclosed reserves	90,133		(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)	26,680		(45)
6 CET1 capital before regulatory deductions	491,439		
CET1 capital: regulatory deductions			
7 Valuation adjustments	2,203		(1)+(2)+(3)+(6)+(22)
8 Goodwill (net of associated deferred tax liability)	9,667		(10)+(13)+(16)+(28)
9 Other intangible assets (net of associated deferred tax liability)	5,578		(11)+(14)+(17)+(29)
10 Deferred tax assets net of deferred tax liabilities	2,028		(15)
11 Cash flow hedge reserve	(24)		(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	736		(21)+(23)+(24)+(26)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	101		(18)+(19)+(30)
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)	22,710	86,538	(5)+(7)+(9)+(12)+(20)-(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 2014		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	76,235		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	50,955		(38)+(43)
26b Regulatory reserve for general banking risks	25,280		(41)
27 Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	11,537		(51)-(50)
28 Total regulatory deductions to CET1 capital	130,771		
29 CET1 capital	360,668		
AT1 capital: instruments			
30 Qualifying AT1 capital instruments plus related share premium	–		
31 Of which classified as equity under applicable accounting standards	–		
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	25,213		(33)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	6,519		(46)+(47)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	3,925		(47)
36 AT1 capital before regulatory deductions	31,732		(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	43,269		
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	43,269		
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	43,269		(48)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43 Total regulatory deductions to AT1 capital	43,269		(51)
44 AT1 capital	–		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	360,668		

Appendix 1: Transition Disclosures Template (continued)

	At 30 June 2014		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	18,602		(25)
47 Capital instruments subject to phase out arrangements from Tier 2 capital	30,070		(27)+(31)+(34)
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)	3,630		(32)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	3,630		(32)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	14,506		(4)+(42)
51 Tier 2 capital before regulatory deductions	66,808		
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	2,856	–	(8)
56 National specific regulatory adjustments applied to Tier 2 capital	19,685		
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	(23,584)		[(36)+(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	43,269		
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	43,269		(49)
57 Total regulatory deductions to Tier 2 capital	22,541		
58 Tier 2 capital	44,267		
59 Total capital (Total capital = Tier 1 + Tier 2)	404,935		
60 Total risk weighted assets	2,671,392		

Appendix 1: Transition Disclosures Template (continued)

	At 30 June 2014		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	13.50%		
62 Tier 1 capital ratio	13.50%		
63 Total capital ratio	15.16%		
64 Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	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	7.16%		
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	6,575		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	38,382		
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)	3,524		
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	2,963		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	16,160		
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	11,543		
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	44,058		
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 2014	
		Hong Kong basis HK\$m	Basel III basis HK\$m
10	Deferred tax assets net of deferred tax liabilities	2,028	211

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)	109,248	107,737
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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 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 2013		
	Component of	Amounts	Cross-
	regulatory capital	subject to pre- Basel III treatment *	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	83,865		(33)
2 Retained earnings	262,913		(38)+(42)
3 Disclosed reserves	89,751		(35)
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)	24,464		(43)
6 CET1 capital before regulatory deductions	460,993		
CET1 capital: regulatory deductions			
7 Valuation adjustments	2,473		(2)+(3)+(4)+(7)
8 Goodwill (net of associated deferred tax liability)	10,028		(11)+(14)+(17)+(26)
9 Other intangible assets (net of associated deferred tax liability)	5,915	–	(12)+(15)+(18)+(27)
10 Deferred tax assets net of deferred tax liabilities	2,350		(16)
11 Cash flow hedge reserve	197		(37)
12 Excess of total EL amount over total eligible provisions under the IRB approach	–	–	
13 Gain-on-sale arising from securitization transactions	–		
14 Gains and losses due to changes in own credit risk on fair valued liabilities	1,117	–	(20)+(21)+(22)+(24)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	110	–	(19)+(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)	875	106,106	(1)+(6)+(8)+(10)+(13)-(47)-(48)
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	72,636		
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	50,073		(36)+(41)
26b Regulatory reserve for general banking risks	22,563		(39)
27 Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	14,187		(50)-(49)
28 Total regulatory deductions to CET1 capital	109,888		
29 CET1 capital	351,105		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2013		
	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	–		
31 Of which classified as equity under applicable accounting standards	–		
32 Of which classified as liabilities under applicable accounting standards	–		
33 Capital instruments subject to phase out arrangements from AT1 capital	30,651		(31)
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	8,215		(44)+(45)
35 Of which AT1 capital instruments issued by subsidiaries subject to phase out arrangements	5,884		(45)
36 AT1 capital before regulatory deductions	38,866		(49)
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	53,053		
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	53,053		
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	53,053		(47)
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43 Total regulatory deductions to AT1 capital	53,053		(50)
44 AT1 capital	–		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	351,105		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2013		
	Component of	Amounts subject	Cross-
	regulatory capital	to pre- Basel III treatment*	referenced to **
	HK\$m	HK\$m	
Tier 2 capital : instruments and provisions			
46 Qualifying Tier 2 capital instruments plus any related share premium	6,203		(23)
47 Capital instruments subject to phase out arrangements from Tier 2 capital	35,399		(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)	4,607		(30)+(46)
49 Of which capital instruments issued by subsidiaries subject to phase out arrangements	3,761		(30)
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	13,519		(5)+(40)
51 Tier 2 capital before regulatory deductions	59,728		
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	2,857	–	(9)
56 National specific regulatory adjustments applied to Tier 2 capital	29,866		
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	(23,187)		[(34)+(36)+ (41)]x45%
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	53,053		
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	53,053		(48)
57 Total regulatory deductions to Tier 2 capital	32,723		
58 Tier 2 capital	27,005		
59 Total capital (Total capital = Tier 1 + Tier 2)	378,110		
60 Total risk weighted assets	2,482,354		

Appendix 1: Transition Disclosures Template (continued)

	At 31 December 2013		
	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	Cross- referenced to **
	HK\$m	HK\$m	
Capital ratios (as a percentage of risk weighted assets)			
61 CET1 capital ratio	14.14%		
62 Tier 1 capital ratio	14.14%		
63 Total capital ratio	15.23%		
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)	3.50%		
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	7.23%		
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	10,216		
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	35,265		
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)	3,296		
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	2,840		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	15,247		
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	10,679		
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	46,413		
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	49,565		
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 2013	
		Hong Kong basis HK\$m	Basel III basis HK\$m

10	Deferred tax assets net of deferred tax liabilities	2,350	282
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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)	106,981	105,456
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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 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 2014 Interim Consolidated Results - Highlights, 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 2014		At 31 December 2013	
	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 balances at central banks	130,527	130,495	158,879	158,694
Items in the course of collection from other banks	31,798	31,798	16,346	16,346
Hong Kong Government certificates of indebtedness	206,474	206,474	195,554	195,554
Trading assets	396,954	396,674	311,400	311,362
Financial assets designated at fair value	96,311	1,843	90,146	1,561
Derivatives	303,891	303,791	388,727	388,659
Reverse repurchase agreements - non-trading	229,899	157,829	150,584	107,469
Placings with and advances to banks	559,664	529,624	564,521	545,236
Loans and advances to customers	2,809,379	2,802,403	2,619,245	2,617,287
Financial investments	1,375,495	1,154,061	1,379,771	1,172,799
Amounts due from Group companies	200,126	248,711	161,975	209,191
Investments in subsidiaries	–	12,307	–	12,308
Interests in associates and joint ventures	112,828	110,122	107,852	105,319
Goodwill and intangible assets	44,444	11,796	41,882	11,793
Property, plant and equipment	102,158	100,194	101,240	99,301
Deferred tax assets	2,015	1,921	2,294	2,216
Other assets	163,700	147,086	148,939	133,153
Total assets	6,765,663	6,347,129	6,439,355	6,088,248

Appendix 2: Balance Sheet Reconciliation (continued)

	At 30 June 2014		At 31 December 2013	
	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	206,474	206,474	195,554	195,554
Items in the course of transmission to other banks	52,655	52,655	34,240	34,240
Repurchase agreements - non-trading	31,147	31,147	6,312	6,312
Deposits by banks	229,642	228,838	231,358	231,099
Customer accounts	4,420,450	4,408,671	4,253,698	4,244,578
Trading liabilities	241,399	241,350	195,032	195,032
Financial liabilities designated at fair value	48,197	11,055	41,715	5,029
Derivatives	292,965	292,608	365,052	364,644
Debt securities in issue	49,710	49,710	52,334	52,334
Retirement benefit liabilities	5,290	5,287	4,856	4,783
Amounts due to Group companies	172,464	161,071	91,797	118,544
Other liabilities and provisions	91,050	88,108	88,809	86,019
Liabilities under insurance contracts issued	295,279	–	276,180	–
Current tax liabilities	6,556	5,922	3,722	3,551
Deferred tax liabilities	16,872	11,079	16,051	11,056
Subordinated liabilities	13,217	13,217	13,107	13,107
Preference shares	36,564	36,451	47,314	47,205
Total liabilities	6,209,931	5,843,643	5,917,131	5,613,087
Equity				
Share capital	96,052	96,052	85,319	85,319
Other reserves	91,699	90,133	89,564	89,751
Retained profits	316,785	270,778	290,926	247,913
Proposed dividend	9,250	9,250	15,000	15,000
Total shareholders' equity	513,786	466,213	480,809	437,983
Non-controlling interests	41,946	37,273	41,415	37,178
Total equity	555,732	503,486	522,224	475,161
Total equity and liabilities	6,765,663	6,347,129	6,439,355	6,088,248

December 2013 comparatives have been re-presented to conform to the current period's presentation. For details of the changes in presentation, see note 24 of the 2014 Interim Consolidated Results - Highlights.

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 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 balances at central banks	130,527	130,495	
Items in the course of collection from other banks	31,798	31,798	
Hong Kong Government certificates of indebtedness	206,474	206,474	
Trading assets	396,954	396,674	
Of which valuation adjustments		259	(1)
Financial assets designated at fair value	96,311	1,843	
Of which valuation adjustments		4	(2)
Derivatives	303,891	303,791	
Of which valuation adjustments		966	(3)
Reverse repurchase agreements - non-trading	229,899	157,829	
Placings with advances to banks	559,664	529,624	
Loans and advances to customers	2,809,379	2,802,403	
Of which impairment allowances eligible for inclusion in Tier 2 capital		2,051	(4)
Financial investments	1,375,495	1,154,061	
Of which significant capital investments in financial sector entities exceeding 10% threshold		20,162	(5)
Of which valuation adjustments		972	(6)
Amounts due from Group companies	200,126	248,711	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,510	(7)
Of which significant capital investments in financial sector entities exceeding 10% threshold		2,856	(8)
Investments in subsidiaries	–	12,307	
Of which significant capital investment in financial sector entities exceeding 10% threshold		9,108	(9)
Interests in associates and joint ventures	112,828	110,122	
Of which goodwill		4,118	(10)
Of which intangible assets		294	(11)
Of which significant capital investments in financial sector entities exceeding 10% threshold		78,227	(12)
Goodwill and intangible assets	44,444	11,796	
Of which goodwill		5,651	(13)
Of which intangible assets		6,145	(14)
Property, plant and equipment	102,158	100,194	
Deferred tax assets	2,015	1,921	
Of which deferred tax assets net of related tax liabilities		2,028	(15)
Of which deferred tax liabilities related to goodwill		(96)	(16)
Of which deferred tax liabilities related to intangibles		(6)	(17)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(5)	(18)
Other assets	163,700	147,086	
Of which defined benefit pension fund net assets		117	(19)
Of which significant capital investments in financial sector entities exceeding 10% threshold		241	(20)
Total assets	6,765,663	6,347,129	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 30 June 2014		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	206,474	206,474	
Items in the course of transmission to other banks	52,655	52,655	
Repurchase agreements - non-trading	31,147	31,147	
Deposits by banks	229,642	228,838	
Customer accounts	4,420,450	4,408,671	
Trading liabilities	241,399	241,350	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		134	(21)
Of which valuation adjustments		2	(22)
Financial liabilities designated at fair value	48,197	11,055	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		(69)	(23)
Derivatives	292,965	292,608	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		614	(24)
Debt securities in issue	49,710	49,710	
Retirement benefit liabilities	5,290	5,287	
Amounts due to Group companies	172,464	161,071	
Of which qualifying Tier 2 capital instruments		18,602	(25)
Of which gains and losses due to changes in own credit risk on fair valued liabilities		57	(26)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,495	(27)
Other liabilities and provisions	91,050	88,108	
Liabilities under insurance contracts issued	295,279	–	
Current tax liabilities	6,556	5,922	
Deferred tax liabilities	16,872	11,079	
Of which deferred tax liabilities related to goodwill		(6)	(28)
Of which deferred tax liabilities related to intangibles		(855)	(29)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(11)	(30)
Subordinated liabilities	13,217	13,217	
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,337	(31)
Of which portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase out arrangements		3,630	(32)
Preference shares	36,564	36,451	
Of which portion eligible for AT1 capital instruments, subject to phase out arrangements		25,213	(33)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		11,238	(34)
Total liabilities	6,209,931	5,843,643	

Appendix 2: Balance Sheet Reconciliation *(continued)*

	<u>At 30 June 2014</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	(35)
Of which revaluation reserve capitalisation issue		1,454	(36)
Other reserves	91,699	90,133	(37)
Of which fair value gains arising from revaluation of land and buildings		47,017	(38)
Of which cash flow hedging reserves		(24)	(39)
Retained profits	316,785	270,778	(40)
Of which regulatory reserve for general banking risks		25,280	(41)
Of which regulatory reserve eligible for inclusion in Tier 2 capital		12,455	(42)
Of which fair value gains arising from revaluation of land and buildings		3,938	(43)
Proposed dividend	9,250	9,250	(44)
Total shareholders' equity	513,786	466,213	
Non-controlling interests	41,946	37,273	
Of which portion allowable in CET1 capital		26,680	(45)
Of which portion allowable in AT1 capital		2,594	(46)
Of which portion in AT1 capital, subject to phase out arrangements		3,925	(47)
Total equity	555,732	503,486	
Total equity and liabilities	6,765,663	6,347,129	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2013 (Re-presented)		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 balances at central banks	158,879	158,694	
Items in the course of collection from other banks	16,346	16,346	
Hong Kong Government certificates of indebtedness	195,554	195,554	
Trading assets	311,400	311,362	
Of which significant capital investments in financial sector entities exceeding 10% threshold		21	(1)
Of which valuation adjustments		183	(2)
Financial assets designated at fair value	90,146	1,561	
Of which valuation adjustments		9	(3)
Derivatives	388,727	388,659	
Of which valuation adjustments		1,239	(4)
Reverse repurchase agreement - non-trading	150,584	107,469	
Placings with and advances to banks	564,521	545,236	
Loans and advances to customers	2,619,245	2,617,287	
Of which impairment allowances eligible for inclusion in Tier 2 capital		2,086	(5)
Financial investments	1,379,771	1,172,799	
Of which significant capital investments in financial sector entities exceeding 10% threshold		20,820	(6)
Of which valuation adjustments		1,042	(7)
Amounts due from Group companies	161,975	209,191	
Of which significant capital investments in financial sector entities exceeding 10% threshold		1,525	(8)
Of which significant capital investments in financial sector entities		2,857	(9)
Investments in subsidiaries	–	12,308	
Of which significant capital investments in financial sector entities exceeding 10% threshold		9,257	(10)
Interests in associates and joint ventures	107,852	105,319	
Of which goodwill		4,603	(11)
Of which intangible assets		516	(12)
Of which significant capital investments in financial sector entities exceeding 10% threshold		75,358	(13)
Goodwill and intangible assets	41,882	11,793	
Of which goodwill		5,525	(14)
Of which intangible assets		6,268	(15)
Property, plant and equipment	101,240	99,301	
Deferred tax assets	2,294	2,216	
Of which deferred tax assets net of related tax liabilities		2,350	(16)
Of which deferred tax liabilities related to goodwill		(95)	(17)
Of which deferred tax liabilities related to intangibles		(39)	(18)
Other assets	148,939	133,153	
Of which defined benefit pension fund net assets		111	(19)
Total assets	6,439,355	6,088,248	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2013 (Re-presented)		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	195,554	195,554	
Items in the course of transmission to other banks	34,240	34,240	
Repurchase agreements - non-trading	6,312	6,312	
Deposits by banks	231,358	231,099	
Customer accounts	4,253,698	4,244,578	
Trading liabilities	195,032	195,032	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		180	(20)
Of which valuation adjustments			
Financial liabilities designated at fair value	41,715	5,029	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		(29)	(21)
Derivatives	365,052	364,644	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		903	(22)
Debt securities in issue	52,334	52,334	
Retirement benefit liabilities	4,856	4,783	
Amounts due to Group companies	91,797	118,544	
Of which qualifying Tier 2 capital instruments		6,203	(23)
Of which gains and losses due to changes in own credit risk on fair valued liabilities		63	(24)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,499	(25)
Other liabilities and provisions	88,809	86,019	
Liabilities under insurance contracts issued	276,180	–	
Current tax liabilities	3,722	3,551	
Deferred tax liabilities	16,051	11,056	
Of which deferred tax liabilities related to goodwill		(5)	(26)
Of which deferred tax liabilities related to intangibles		(830)	(27)
Of which deferred tax liabilities related to defined benefit pension fund net assets		(1)	(28)
Subordinated liabilities	13,107	13,107	
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		9,346	(29)
Of which portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase out arrangements		3,761	(30)
Preference shares	47,314	47,205	
Of which portion eligible for AT1 capital instruments, subject to phase out arrangements		30,651	(31)
Of which portion eligible for Tier 2 capital instruments, subject to phase out arrangements		16,554	(32)
Total liabilities	5,917,131	5,613,087	

Appendix 2: Balance Sheet Reconciliation *(continued)*

	At 31 December 2013 (Re-presented)		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	85,319	85,319	
Of which portion eligible for inclusion in CET1 capital		83,865	(33)
Of which revaluation reserve capitalisation issue		1,454	(34)
Other reserves	89,564	89,751	(35)
Of which fair value gains arising from revaluation of land and buildings		46,336	(36)
Of which cash flow hedging reserves		197	(37)
Retained profits	290,926	247,913	(38)
Of which regulatory reserve for general banking risks		22,563	(39)
Of which regulatory reserve eligible for inclusion in Tier 2 capital		11,433	(40)
Of which fair value gains arising from revaluation of land and buildings		3,737	(41)
Proposed dividend	15,000	15,000	(42)
Total shareholders' equity	480,809	437,983	
Non-controlling interests	41,415	37,178	
Of which portion allowable in CET1 capital		24,464	(43)
Of which portion allowable in AT1 capital		2,331	(44)
Of which portion in AT1 capital, subject to phase out arrangements		5,884	(45)
Of which portion allowable in Tier 2 capital		846	(46)
Total equity	522,224	475,161	
Total equity and liabilities	6,439,355	6,088,248	