



The Hongkong and Shanghai Banking
Corporation Limited

Disclosure Statement

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

Supplementary Notes Appendices
for the year ended 31 December 2013

Appendices

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Appendix 1: Transition Disclosures Template

The following table sets out the detailed composition of the group's regulatory capital at 31 December 2013 using the Transition Disclosures Template as specified by the 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.

	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	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) Public sector capital injections grandfathered until 1 January 2018	Not applicable 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)	<u>24,464</u>		(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		

Appendix 1: Transition Disclosures Template (continued)

	Component of regulatory capital	Amounts subject to pre- Basel III treatment *	Cross- referenced to **
	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	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		
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)

	Component of regulatory capital	Amounts subject to pre- Basel III treatment*	Cross- 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)

	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	Hong Kong basis HK\$m	Basel III basis HK\$m
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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 2013 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 at 31 December 2013 based on the accounting scope of consolidation and the corresponding balances based on the regulatory scope of consolidation.

	At 31 December 2013	
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m
Assets		
Cash and short-term funds	1,132,719	1,109,158
Items in the course of collection from other banks	16,345	16,345
Placings with banks maturing after one month	216,970	207,954
Certificates of deposit	88,207	75,594
Hong Kong Government certificates of indebtedness	195,555	195,555
Trading assets	311,400	311,362
Financial assets designated at fair value	90,146	1,561
Derivatives	388,727	388,659
Loans and advances to customers	2,669,238	2,636,629
Financial investments	765,866	572,150
Amounts due from Group companies	161,975	209,191
Investments in subsidiaries	–	12,308
Interests in associates and joint ventures	107,852	105,319
Goodwill and intangible assets	41,882	11,793
Property, plant and equipment	101,240	99,301
Deferred tax assets	2,294	2,216
Other assets	148,939	133,153
Total assets	6,439,355	6,088,248

Appendix 2: Balance Sheet Reconciliation *(continued)*

	At 31 December 2013	
	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
Deposits by banks	236,616	236,357
Customer accounts	4,254,752	4,245,632
Trading liabilities	195,032	195,032
Financial liabilities designated at fair value	41,715	5,029
Derivatives	365,052	364,644
Debt securities in issue	52,334	52,334
Retirement benefit liabilities	4,856	4,783
Amounts due to Group companies	91,797	118,544
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
Subordinated liabilities	13,107	13,107
Preference shares	47,314	47,205
Total liabilities	5,917,131	5,613,087
Equity		
Share capital	85,319	85,319
Other reserves	89,564	89,751
Retained profits	290,926	247,913
Proposed dividend	15,000	15,000
Total shareholders' equity	480,809	437,983
Non-controlling interests	41,415	37,178
Total equity	522,224	475,161
Total equity and liabilities	6,439,355	6,088,248

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 31 December 2013		
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Cross- referenced to Definition of Capital Components
Assets			
Cash and short-term funds	1,132,719	1,109,158	
Items in the course of collection from other banks	16,345	16,345	
Placings with banks maturing after one month	216,970	207,954	
Certificates of deposit	88,207	75,594	
Hong Kong Government certificates of indebtedness	195,555	195,555	
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)
Loans and advances to customers	2,669,238	2,636,629	
Of which impairment allowances eligible for inclusion in Tier 2 capital		2,086	(5)
Financial investments	765,866	572,150	
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 pension fund net assets		111	(19)
Total assets	6,439,355	6,088,248	

Appendix 2: Balance Sheet Reconciliation (continued)

	At 31 December 2013		
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Cross- referenced to Definition of Capital Components
Liabilities			
Hong Kong currency notes in circulation	195,554	195,554	
Items in the course of transmission to other banks	34,240	34,240	
Deposits by banks	236,616	236,357	
Customer accounts	4,254,752	4,245,632	
Trading liabilities	195,032	195,032	
Of which gains and losses due to changes in own credit risk on fair valued liabilities		180	(20)
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		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 qualifying CET1 capital instruments		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 reserve		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 eligible for inclusion in CET1 capital		24,464	(43)
Of which portion eligible for inclusion in AT1 capital		2,331	(44)
Of which portion in AT1 capital, subject to phase out arrangements		5,884	(45)
Of which portion eligible for inclusion in Tier 2 capital		846	(46)
Total equity	522,224	475,161	
Total equity and liabilities	6,439,355	6,088,248	