

22 September 2008

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED

**INTERIM DISCLOSURE STATEMENT
PREPARED UNDER THE BANKING (DISCLOSURE) RULES
MADE PURSUANT TO SECTION 60A OF THE BANKING ORDINANCE**

SUPPLEMENTARY NOTES FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. Status of this document

The information contained in this document is supplementary to and should be read in conjunction with the 2008 Interim Consolidated Results Press Release issued on 4 August 2008, available at www.hsbc.com.hk. The information in the two documents, taken together, complies with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance ('the Rules').

2. Basis of preparation

Except where indicated otherwise, the financial information contained in this Statement and in the 2008 Interim Consolidated Results Press Release has been prepared on a consolidated basis in accordance with accounting principles generally accepted in Hong Kong. Some parts of the information contained in this Statement, however, are required by the Rules to be prepared on a different basis. In such cases, the Rules require that certain information is prepared on a basis which excludes some of the subsidiaries of The Hongkong and Shanghai Banking Corporation Limited.

Further information regarding subsidiaries is set out in Note 27 below.

3. Net fee income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2008</i>	<i>Half-year ended 30 June 2007</i>
Net fee income includes the following:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at fair value		
- fee income	5,576	4,371
- fee expense	(541)	(383)
	<u>5,035</u>	<u>3,988</u>
Net fee income on trust and other fiduciary activities where the group holds or invests assets on behalf of its customers		
- fee income	4,269	3,849
- fee expense	(486)	(355)
	<u>3,783</u>	<u>3,494</u>

4. Dividend income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2008</i>	<i>Half-year ended 30 June 2007</i>
Listed investments	430	226
Unlisted investments	106	120
	<u>536</u>	<u>346</u>

5. Placings with banks

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Placings with banks maturing after one month but not more than twelve months	66,951	56,640
Placings with banks maturing after twelve months	3,732	3,688
Placings with banks maturing after one month	<u>70,683</u>	<u>60,328</u>
Placings with central banks	<u>121,153</u>	<u>85,141</u>

6. Overdue advances to customers

The geographical information shown below, and in Note 7, has been classified by the location of the principal operations of the subsidiary company or, in the case of the bank, by the location of the branch responsible for advancing the funds.

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
At 30 June 2008			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- more than three months but not more than six months	535	1,979	2,514
- more than six months but not more than one year	558	662	1,220
- more than one year	<u>620</u>	<u>1,492</u>	<u>2,112</u>
	<u><u>1,713</u></u>	<u><u>4,133</u></u>	<u><u>5,846</u></u>
Overdue advances to customers as a percentage of gross advances to customers:			
- more than three months but not more than six months	0.1 %	0.3 %	0.2 %
- more than six months but not more than one year	0.1 %	0.1 %	0.1 %
- more than one year	<u>0.1 %</u>	<u>0.2 %</u>	<u>0.2 %</u>
	<u><u>0.3 %</u></u>	<u><u>0.6 %</u></u>	<u><u>0.5 %</u></u>
Individually assessed impairment allowances made in respect of such overdue advances	<u>(398)</u>	<u>(859)</u>	<u>(1,257)</u>
Amount of collateral held in respect of overdue advances	<u>826</u>	<u>1,792</u>	<u>2,618</u>

6. Overdue advances to customers (continued)

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
At 31 December 2007			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- more than three months but not more than six months	737	1,403	2,140
- more than six months but not more than one year	223	837	1,060
- more than one year	<u>637</u>	<u>1,042</u>	<u>1,679</u>
	<u>1,597</u>	<u>3,282</u>	<u>4,879</u>
Overdue advances to customers as a percentage of gross advances to customers:			
- more than three months but not more than six months	0.1 %	0.3 %	0.2 %
- more than six months but not more than one year	0.0 %	0.2 %	0.1 %
- more than one year	<u>0.1 %</u>	<u>0.2 %</u>	<u>0.1 %</u>
	<u>0.2 %</u>	<u>0.7 %</u>	<u>0.4 %</u>
Individually assessed impairment allowances made in respect of such overdue loans and advances	<u>(418)</u>	<u>(787)</u>	<u>(1,205)</u>
Amount of collateral held in respect of overdue advances	<u>1,118</u>	<u>1,266</u>	<u>2,384</u>

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance is included.

7. Rescheduled advances to customers

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
At 30 June 2008			
Rescheduled advances to customers	<u>1,379</u>	<u>1,442</u>	<u>2,821</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.2%</u>	<u>0.2%</u>	<u>0.2%</u>
At 31 December 2007			
Rescheduled advances to customers	<u>1,610</u>	<u>1,620</u>	<u>3,230</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.2%</u>	<u>0.3%</u>	<u>0.3%</u>

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

Rescheduled advances to customers are stated net of any advances which have subsequently become overdue for more than three months and which are included in overdue advances to customers (Note 6).

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

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

<i>Figures in HK\$m</i>	<u>Gross advances</u>	<u>Collateral or other security</u>
At 30 June 2008		
Gross advances to customers for use in Hong Kong		
Industrial, commercial and financial		
Property development	47,448	11,517
Property investment	132,435	101,365
Financial concerns	15,009	3,483
Stockbrokers	1,167	264
Wholesale and retail trade	49,070	15,414
Manufacturing	31,218	5,585
Transport and transport equipment	24,962	18,402
Recreational activities	259	7
Information technology	2,781	63
Others	44,822	13,507
	<u>349,171</u>	<u>169,607</u>
Individuals		
Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme	30,876	30,826
Advances for the purchase of other residential properties	190,825	190,395
Credit card advances	34,009	-
Others	38,319	16,039
	<u>294,029</u>	<u>237,260</u>
Gross advances to customers for use in Hong Kong	643,200	406,867
Trade finance	79,478	24,123
Gross advances to customers for use outside Hong Kong made by branches of the bank and subsidiary companies in Hong Kong	<u>18,748</u>	<u>2,020</u>
Gross advances to customers made by branches of the bank and subsidiary companies in Hong Kong	741,426	433,010
Gross advances to customers made by branches of the bank and subsidiary companies outside Hong Kong	<u>609,044</u>	<u>234,316</u>
Gross advances to customers	<u>1,350,470</u>	<u>667,326</u>

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

<i>Figures in HK\$m</i>	<u>Gross advances</u>	<u>Collateral or other security</u>
At 31 December 2007		
Gross advances to customers for use in Hong Kong		
Industrial, commercial and financial		
Property development	47,217	12,198
Property investment	116,331	86,658
Financial concerns	10,731	1,588
Stockbrokers	2,669	544
Wholesale and retail trade	38,502	12,164
Manufacturing	21,526	4,424
Transport and transport equipment	26,381	18,388
Recreational activities	238	12
Information technology	2,504	27
Others	40,674	14,864
	<u>306,773</u>	<u>150,867</u>
Individuals		
Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme	30,738	30,686
Advances for the purchase of other residential properties	176,591	176,123
Credit card advances	35,279	-
Others	37,188	16,078
	<u>279,796</u>	<u>222,887</u>
Gross advances to customers for use in Hong Kong	586,569	373,754
Trade finance	65,149	22,007
Gross advances to customers for use outside Hong Kong made by branches of the bank and subsidiary companies in Hong Kong	<u>16,471</u>	<u>2,639</u>
Gross advances to customers made by branches of the bank and subsidiary companies in Hong Kong	668,189	398,400
Gross advances to customers made by branches of the bank and subsidiary companies outside Hong Kong	<u>551,157</u>	<u>217,710</u>
Gross advances to customers	<u><u>1,219,346</u></u>	<u><u>616,110</u></u>

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

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance is included.

9. Individually assessed impaired advances

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
At 30 June 2008			
Gross individually assessed impaired advances	2,966	2,832	5,798
Individually assessed impairment allowances	<u>(1,035)</u>	<u>(1,136)</u>	<u>(2,171)</u>
	<u>1,931</u>	<u>1,696</u>	<u>3,627</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>0.4%</u>	<u>0.5%</u>	<u>0.4%</u>
Amount of collateral which has been taken into account in respect of individually assessed impaired advances to customers	<u>2,016</u>	<u>2,025</u>	<u>4,041</u>
At 31 December 2007			
Gross individually assessed impaired advances	2,950	2,686	5,636
Individually assessed impairment allowances	<u>(1,028)</u>	<u>(1,154)</u>	<u>(2,182)</u>
	<u>1,922</u>	<u>1,532</u>	<u>3,454</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>0.4%</u>	<u>0.5%</u>	<u>0.5%</u>
Amount of collateral which has been taken into account in respect of individually assessed impaired advances to customers	<u>1,973</u>	<u>1,406</u>	<u>3,379</u>

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance is included.

9. Individually assessed impaired advances (*continued*)

For individually assessed customer advances where the industry sectors comprise more than 10 per cent of the total gross advances to customers, the analysis of gross impaired advances and allowances by major industry sectors based on categories and definitions used by the HSBC Group are as follows:

<i>Figures in HK\$m</i>	<i>Total gross advances</i>	<i>Gross impaired advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
At 30 June 2008				
Residential mortgages	348,734	2,041	(164)	(272)
Commercial, industrial and international trade	393,517	2,515	(1,614)	(1,708)
Commercial real estate	160,262	55	(50)	(61)
At 31 December 2007				
Residential mortgages	326,366	2,066	(204)	(275)
Commercial, industrial and international trade	338,806	2,538	(1,617)	(1,553)
Commercial real estate	141,139	84	(11)	(54)

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

10. Repossessed assets

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Repossession assets	<u>312</u>	<u>267</u>

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

11. Impairment allowances against advances to banks and other assets

There are no significant impaired, overdue or rescheduled advances to banks or overdue or rescheduled other assets as at 30 June 2008 and 31 December 2007.

12. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return for non-bank Mainland exposures, which includes the Mainland exposures extended by the bank and its banking subsidiaries in Mainland China.

Figures in HK\$m

At 30 June 2008	<i>On-balance sheet exposure</i>	<i>Off-balance sheet exposure</i>	<i>Total exposures</i>	<i>Specific provisions</i>
Mainland entities	16,402	17,250	33,652	53
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	43,830	39,163	82,993	134
Other counterparties the exposures to whom are considered by the bank to be non-bank Mainland exposures	675	2,926	3,601	-
	<u>60,907</u>	<u>59,339</u>	<u>120,246</u>	<u>187</u>
Mainland exposures of wholly- owned Mainland subsidiaries	66,930	16,426	83,356	57
	<u>127,837</u>	<u>75,765</u>	<u>203,602</u>	<u>244</u>
 At December 2007				
Mainland entities	13,833	18,212	32,045	53
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	36,598	39,475	76,073	83
Other counterparties the exposures to whom are considered by the bank to be non-bank Mainland exposures	769	2,565	3,334	-
	<u>51,200</u>	<u>60,252</u>	<u>111,452</u>	<u>136</u>
Mainland exposures of wholly- owned Mainland subsidiaries	64,632	13,083	77,715	56
	<u>115,832</u>	<u>73,335</u>	<u>189,167</u>	<u>192</u>

13. Cross-border exposure

The country risk exposures in the tables below are prepared in accordance with the HKMA Return of External Positions Part II: Cross-Border Claims (MA(BS)9) guidelines.

Cross-border claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk.

The tables show claims on individual countries and territories or areas, after risk transfer, amounting to 10 per cent or more of the aggregate cross-border claims.

Cross-border risk is controlled centrally through a well-developed system of country limits and is frequently reviewed to avoid concentration of transfer, economic or political risk.

<i>Figures in HK\$m</i>	<i>Banks and other financial institutions</i>	<i>Public sector entities</i>	<i>Other</i>	<i>Total</i>
At 30 June 2008				
Americas				
United States	49,802	72,780	39,401	161,983
Other	46,816	951	70,019	117,786
	<u>96,618</u>	<u>73,731</u>	<u>109,420</u>	<u>279,769</u>
Europe				
United Kingdom	238,926	17	32,444	271,387
Other	460,287	945	55,891	517,123
	<u>699,213</u>	<u>962</u>	<u>88,335</u>	<u>788,510</u>
Asia-Pacific excluding Hong Kong	<u>260,727</u>	<u>30,207</u>	<u>188,607</u>	<u>479,541</u>
At 31 December 2007				
Americas				
United States	53,963	63,624	62,638	180,225
Other	48,643	2,713	51,189	102,545
	<u>102,606</u>	<u>66,337</u>	<u>113,827</u>	<u>282,770</u>
Europe				
United Kingdom	322,972	17	46,218	369,207
Other	450,375	1,651	48,113	500,139
	<u>773,347</u>	<u>1,668</u>	<u>94,331</u>	<u>869,346</u>
Asia-Pacific excluding Hong Kong	<u>241,481</u>	<u>104,092</u>	<u>171,184</u>	<u>516,757</u>

14. Financial investments

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Debt securities		
- available-for-sale	363,319	404,992
- held-to-maturity	54,994	45,243
	418,313	450,235
Equity shares		
- available-for-sale	58,435	82,008
	476,748	532,243

15. Investments in associates

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Investments in associates	43,169	38,922

16. Property, plant and equipment

<i>Figures in HK\$m</i>	<i>Premises</i>	<i>Investment properties</i>	<i>Equipment</i>	<i>Total</i>
At 30 June 2008				
Cost or valuation at 1 January 2008	25,935	2,808	14,800	43,543
Exchange and other adjustments	(22)	-	(80)	(102)
Additions	247	-	1,163	1,410
Disposals	(2)	-	(353)	(355)
Elimination of accumulated depreciation on revalued premises	(354)	-	-	(354)
Surplus on revaluation	2,733	199	-	2,932
Reclassifications	(73)	5	-	(68)
At 30 June 2008	<u>28,464</u>	<u>3,012</u>	<u>15,530</u>	<u>47,006</u>
Accumulated depreciation at 1 January 2008	3	-	10,184	10,187
Exchange and other adjustments	-	-	(26)	(26)
Charge for the period	395	-	836	1,231
Disposals	-	-	(323)	(323)
Elimination of accumulated depreciation on revalued premises	(354)	-	-	(354)
At 30 June 2008	<u>44</u>	<u>-</u>	<u>10,671</u>	<u>10,715</u>
Net book value at 30 June 2008	<u>28,420</u>	<u>3,012</u>	<u>4,859</u>	<u>36,291</u>

17. Trading liabilities

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Certificates of deposit in issue	10,200	25,234
Other debt securities in issue	57,905	55,945
Short positions in securities	50,372	59,200
Deposits by banks	30,497	28,799
Customer accounts	108,759	96,497
	<u>257,733</u>	<u>265,675</u>

18. Financial liabilities designated at fair value

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Deposits by banks	550	728
Customer accounts	1,562	2,638
Subordinated liabilities	979	989
Liabilities to customers under investment contracts	32,324	33,792
	<u>35,415</u>	<u>38,147</u>

19. Debt securities in issue

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Certificates of deposit	64,543	64,340
Other debt securities	18,016	20,183
	<u>82,559</u>	<u>84,523</u>

20. Subordinated liabilities

Subordinated liabilities consist of undated primary capital notes and other loan capital having an original term to maturity of five years or more, raised by the group for the development and expansion of its business.

<i>Figures in HK\$m</i>		<i>At 30 June</i>	<i>At 31 December</i>
		<u>2008</u>	<u>2007</u>
US\$1,200m	Primary capital subordinated undated floating rate notes [†]	9,422	9,415
Rs 2,000m	Fixed rate (13.05%) subordinated loans due 2009	<u>363</u>	<u>396</u>
<i>Bank</i>		9,785	9,811
A\$200m	Subordinated floating rate notes callable quarterly from 2011 to 2016	1,499	1,364
A\$42m	Subordinated floating rate notes callable quarterly from 2013 to 2018	315	-
HK\$1,500m	Callable floating rate subordinated notes due 2015	1,497	1,497
US\$450m	Callable floating rate subordinated notes due 2016	3,498	3,496
US\$300m	Callable floating rate subordinated notes due 2017	<u>2,332</u>	<u>2,332</u>
<i>Group</i>		<u>18,926</u>	<u>18,500</u>

[†] US\$800 million of this subordinated capital is subject to an interest rate floor of 5%.

The following subordinated note was classified as 'Financial liabilities designated at fair value' (Note 18):

<i>Figures in HK\$m</i>		<i>At 30 June</i>	<i>At 31 December</i>
		<u>2008</u>	<u>2007</u>
HK\$1,000m	Callable fixed rate (4.125%) subordinated notes due 2015	<u>979</u>	<u>989</u>

21. Reserves

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2008</i>	<i>Half-year ended 30 June 2007</i>
At 1 January	191,860	116,456
- Unrealised surplus on revaluation	2,460	1,185
- Profit for the period attributable to shareholders	27,697	28,987
- Dividends	(12,500)	(10,500)
- Actuarial (losses)/gains on defined benefit plans	(1,222)	790
- Fair value changes taken to equity in respect of available-for sale investments and cash flow hedges	(23,882)	12,090
- Amounts transferred (to)/from the income statement in respect of available-for sale investments and cash flow hedges	(1,826)	195
- Charge in respect of share-based payment arrangements	983	133
- Exchange differences	1,232	3,035
- Other movements	365	(64)
At 30 June	<u>185,167</u>	<u>152,307</u>

22. Off-balance sheet exposures other than derivatives transactions

<i>Contract amounts in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Contingent liabilities and commitments		
- Direct credit substitutes	83,449	84,428
- Transaction-related contingencies	84,351	77,995
- Trade-related contingencies	100,405	86,225
- Forward asset purchases	2,029	1,968
- Commitments that are unconditionally cancellable without prior notice	979,444	946,574
- Commitments which have an original maturity of not more than one year	68,428	73,192
- Commitments which have an original maturity of more than one year	101,700	93,381
	<u>1,419,806</u>	<u>1,363,763</u>
Risk-weighted amounts	<u>171,891</u>	<u>173,658</u>

The table above gives the nominal contract amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by The Hongkong and Shanghai Banking Corporation Limited. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

For the half year ended 30 June 2008, The Hongkong and Shanghai Banking Corporation Limited adopted the foundation internal ratings-based approach to determine credit risk, as opposed to the standardised approach that was used at 31 December 2007. As a result of the change in the basis used, the risk-weighted amounts shown above are not strictly comparable.

For the purposes of this Interim Disclosure Statement, acceptances and endorsements are recognised on the balance sheet in 'Other assets' in accordance with Hong Kong Accounting Standard 39 'Financial Instruments: Recognition and Measurement'. For the purpose of the Banking (Capital) Rules ('the Capital Rules'), acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Contingent liabilities and commitments are credit-related instruments. The contract amounts represent the amounts at risk should the contracts be fully drawn upon and the customers default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

23. Derivative transactions

a. Contract amounts of derivative transactions

<i>Figures in HK\$m</i>	<i>At 30 June 2008</i>	<i>At 31 December 2007</i>
Exchange rate contracts	7,553,160	7,360,186
Interest rate contracts	11,961,056	11,047,274
Credit derivative contracts	860,540	709,173
Other over-the-counter ('OTC') derivative contracts	407,012	327,886
	20,781,768	19,444,519

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

b. Risk exposures to derivative transactions

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Risk- weighted amount</i>	<i>Fair value*</i>
At 30 June 2008			
Exchange rate contracts	6,166,874	46,086	48,665
Interest rate contracts	11,152,442	18,711	29,965
Credit derivative contracts	854,715	13,406	17,388
Other OTC derivative contracts	194,635	5,879	12,305
	18,368,666	84,082	108,323
At 31 December 2007			
Exchange rate contracts	6,935,988	45,679	30,305
Interest rate contracts	10,367,485	14,073	23,298
Credit derivative contracts	708,418	7,523	4,927
Other OTC derivative contracts	146,378	5,273	24,104
	18,158,269	72,548	82,634

* Fair value is after taking into account the effect of valid bilateral netting agreements amounting to HK\$143,837 million at 30 June 2008 (at 31 December 2007: HK\$103,324 million).

23. Derivative transactions *(continued)*

The table above gives the contract amounts, the risk-weighted amounts and the fair value of derivative exposures. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by The Hongkong and Shanghai Banking Corporation Limited. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

For the half year-ended 30 June 2008, The Hongkong and Shanghai Banking Corporation Limited adopted the foundation internal ratings-based approach to determine credit risk, as opposed to the standardised approach that was used at 31 December 2007. As a result of the change in the basis used, the numbers shown above are not strictly comparable.

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

The netting adjustments 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 assets for the capital adequacy ratio.

24. Foreign exchange exposure

Foreign exchange exposures may be divided broadly into two categories: structural and non-structural. Structural exposures are normally long-term in nature and include those arising from investments in overseas subsidiaries, branches, associates and strategic investments as well as capital instruments denominated in currencies other than Hong Kong dollars. Non-structural exposures arise primarily from trading positions and balance sheet management activities. Non-structural exposures can arise and change rapidly. Foreign currency exposures are managed in accordance with the group's risk management policies and procedures.

The group had the following structural foreign currency exposures that were not less than 10 per cent of the total net structural foreign currency exposure in all currencies:

	<u>Net structural position</u>	
	<u>LCYm</u>	<u>HK\$m</u>
At 30 June 2008		
Chinese renminbi	82,079	93,397
Indian rupees	115,269	20,925
At 31 December 2007		
Chinese renminbi	98,182	104,825
Indian rupees	94,864	18,774

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

<i>Figures in HK\$m</i>	<u>United States dollars</u>	<u>Singapore dollars</u>	<u>Brunei dollars</u>	<u>Chinese renminbi</u>
At 30 June 2008				
Spot assets	2,839,619	73,989	73,664	303,607
Spot liabilities	(2,709,272)	(124,857)	(28,105)	(282,523)
Forward purchases	3,617,396	362,597	100	455,132
Forward sales	(3,760,270)	(308,583)	(49,065)	(478,127)
Net options position	19,318	298	-	-
	<u>6,791</u>	<u>3,444</u>	<u>(3,406)</u>	<u>(1,911)</u>
At 31 December 2007				
Spot assets	2,754,883	35,820	65,053	222,368
Spot liabilities	(2,700,125)	(81,235)	(26,586)	(201,629)
Forward purchases	3,584,670	258,370	58	252,162
Forward sales	(3,653,773)	(206,637)	(44,713)	(274,787)
Net options position	18,068	-	-	-
	<u>3,723</u>	<u>6,318</u>	<u>(6,188)</u>	<u>(1,886)</u>

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

25. Liquidity ratio

The Banking Ordinance requires banks operating in Hong Kong to maintain a minimum liquidity ratio of 25 per cent, calculated in accordance with the provisions of the Fourth Schedule of the Banking Ordinance. This requirement applies separately to the Hong Kong branches of the bank and to those subsidiary companies which are authorised institutions under the Banking Ordinance.

<i>Half-year ended</i>	<i>Half-year ended</i>
<i>30 June</i>	<i>30 June</i>
<i>2008</i>	<i>2007</i>
<hr/>	<hr/>

The average liquidity ratio for the period was as follows:

Hong Kong branches of the bank	<u>55.3%</u>	<u>55.6%</u>
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26. Capital adequacy

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

For the half year ended 30 June 2008, The Hongkong and Shanghai Banking Corporation Limited continues to use the standardised approach to calculate operational risk and market risk. It also continues to apply an internal model approach to calculate the general market risk and a separate model to determine the market risk relating to equity options. However, as opposed to the standardised approach that was used at 31 December 2007, it has adopted the foundation internal ratings-based approach to determine credit risk for the half-year ended 30 June 2008. As a result of the change in the basis used to determine credit risk, the numbers shown below are not strictly comparable.

There are no relevant capital shortfalls in any of the group's subsidiaries as at 30 June 2008 which are not included in its consolidation group for regulatory purposes.

Figures in HK\$m

At 30 June 2008

Composition of capital

Core Capital

Paid-up ordinary share capital	21,040
Paid-up irredeemable non-cumulative preference shares	51,891
Published reserves	99,582
Profit and loss account	15,244
Minority interests [†]	22,741
Less: Deduction from core capital	(14,253)
50% of total amount of deductible items	
(@50%) ^{††}	(31,137)
Total core capital	165,108

Supplementary Capital

Property revaluation reserves ^{†††}	7,097
Available-for-sale investments revaluation reserves ^{††††}	2,789
Unrealised fair value gains from financial instruments designated at fair value through profit or loss	22
Regulatory reserve ^{†††††}	1,136
Collective provisions	1,131
Surplus provisions ^{††††††}	1,773
Perpetual subordinated debt	9,422
Paid-up irredeemable cumulative preference shares	16,613
Term subordinated debt	12,398
Paid-up term preference shares	24,959
Less: 50% of total amount of deductible items	
(@50%) ^{††}	(31,137)
Total supplementary capital	46,203

26. Capital adequacy (continued)

Capital base	<u>211,311</u>
Total deductible items ^{††}	<u>62,274</u>

- [†] After deduction of minority interests in unconsolidated subsidiary companies
- ^{††} Total deductible items are deducted from institution's core capital and supplementary capital
- ^{†††} Include the revaluation surplus on investment properties which is reported as part of retained profits
- ^{††††} Include adjustments made in accordance with guidelines issued by the HKMA
- ^{†††††} The regulatory reserve is maintained for satisfying the Banking Ordinance for prudential supervision
- ^{††††††} Include the excess of the total eligible provisions over the total expected loss amount with the use of foundation internal ratings-based approach

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

	<u>At 30 June 2008</u>
Capital adequacy ratio	<u>12.7%</u>
Core capital ratio	<u>9.9%</u>

26. Capital adequacy *(continued)*

Figures in HK\$m

At 31 December 2007

Composition of capital

Core Capital

Paid-up ordinary share capital	21,040
Paid-up irredeemable non-cumulative preference shares	51,882
Published reserves	72,069
Profit and loss account	29,543
Minority interests [†]	21,318
Less: Deduction from core capital	(11,111)
50% of total amount of deductible items	
(@50%) ^{††}	(28,894)
Total core capital	<u>155,847</u>

Supplementary Capital

Property revaluation reserves ^{†††}	5,869
Available-for-sale investments revaluation reserves ^{††††}	4,434
Unrealised fair value gains from financial instruments designated at fair value through profit or loss	137
Regulatory reserve ^{†††††}	4,148
Collective provisions	5,078
Perpetual subordinated debt	9,415
Paid-up irredeemable cumulative preference shares	16,610
Term subordinated debt	11,970
Paid-up term preference shares	21,835
Less: 50% of total amount of deductible items	
(@50%) ^{††}	(28,894)
Total supplementary capital	<u>50,602</u>

Capital base

	<u>206,449</u>
Total deductible items^{††}	<u>57,788</u>

[†] *After deduction of minority interests in unconsolidated subsidiary companies*

^{††} *Total deductible items are deducted from institution's core capital and supplementary capital*

^{†††} *Include the revaluation surplus on investment properties which is reported as part of retained profits*

^{††††} *Include adjustments made in accordance with guidelines issued by the HKMA*

^{†††††} *The regulatory reserve is maintained for satisfying the Banking Ordinance for prudential supervision*

26. Capital adequacy *(continued)*

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

	<i>At 31 December</i> <u>2007</u>
Capital adequacy ratio	<u>11.6%</u>
Core capital ratio	<u><u>8.8%</u></u>

27. Principal subsidiaries and basis of consolidation

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

The major subsidiaries of the bank for accounting purposes are:

Hang Seng Bank Limited
HSBC Bank (China) Company Limited
HSBC Bank Australia Limited[†]
HSBC Insurance (Asia) Limited[†]
HSBC Life (International) Limited[†]

[†] *Held indirectly*

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 98(2) of the Banking Ordinance. Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institution under the Banking (Capital) Rules and the Banking Ordinance. Investments in the unconsolidated subsidiaries are deducted from the capital base as determined in accordance with Part 3 of the Banking (Capital) Rules.

27. Principal subsidiaries and basis of consolidation *(continued)*

With respect to Notes 22, 23b and 26, the principal subsidiaries that are not included in the consolidation for regulatory purpose are:

HSBC Insurance (Asia Pacific) Holdings Limited

HSBC Securities Japan Limited

Hang Seng Insurance Company Limited

Hang Seng General Insurance (Hong Kong) Company Limited

The Hongkong and Shanghai Banking Corporation operates subsidiaries in a number of countries and territories where capital will be governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

28. Accounting policies

The accounting policies applied in preparing this document are the same as those applied in preparing the accounts for the year ended 31 December 2007, as disclosed in the Annual Report and Accounts for 2007, except where otherwise stated in the 2008 Interim Consolidated Results Press Release issued on 4 August 2008.

29. Statutory accounts

The information in this news release 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 2007 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 3 March 2008. The Annual Report and Accounts for The Hongkong and Shanghai Banking Corporation Limited for the year ended 31 December 2007, which include the statutory accounts, can be obtained on request from Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website: www.hsbc.com.hk.