

5 September 2007

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**

**ADDITIONAL FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED
30 JUNE 2007**

1. Status of this document

The information contained in this document is supplementary to and should be read in conjunction with the 2007 Interim consolidated results press release issued on 30 July 2007, 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 2007 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.

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

3. Interest income from impaired financial assets

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Interest income from impaired financial assets	<u>190</u>	<u>101</u>

4. Net fee income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
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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	4,371	4,426
- fee expense	(383)	(853)
	3,988	3,573

Net fee income on trust and other fiduciary activities where the group holds or invests assets on behalf of its customers

- fee income	3,849	3,233
- fee expense	(355)	(285)
	3,494	2,948

5. Gains or losses on financial assets and liabilities

Gains less losses on available-for-sale financial investments amounted to HK\$420 million for the half-year ended 30 June 2007 (*half-year ended 30 June 2006: HK\$1,150 million*). There is also a HKD8 million impairment charge against an available-for-sale investment, which is reported under 'Loan impairment charges and other credit risk provisions'.

6. Dividend income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Listed investments	226	157
Unlisted investments	120	434
	<u>346</u>	<u>591</u>

7. Placings with central banks

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Placings with central banks	<u>49,282</u>	<u>55,234</u>

8. Trading assets

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Debt securities	163,053	140,252
Equity shares	24,616	23,101
Treasury bills	63,810	152,816
Other	49,892	22,623
	<u>301,371</u>	<u>338,792</u>

9. Financial assets designated at fair value

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Debt securities	22,322	22,939
Equity shares	33,929	27,159
Treasury bills	35	-
Other	400	416
	<u>56,686</u>	<u>50,514</u>

Financial assets designated at fair value largely comprise investments held by the group's insurance companies.

10. Overdue 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 2007			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- three to six months	857	1,472	2,329
- six months to one year	265	745	1,010
- over one year	922	833	1,755
	<u>2,044</u>	<u>3,050</u>	<u>5,094</u>
Overdue advances to customers as a percentage of gross advances to customers:			
- three to six months	0.1%	0.3%	0.2%
- six months to one year	0.1%	0.1%	0.1%
- over one year	0.1%	0.2%	0.1%
	<u>0.3%</u>	<u>0.6%</u>	<u>0.4%</u>
Individually assessed impairment allowances made in respect of such overdue advances	<u>(527)</u>	<u>(873)</u>	<u>(1,400)</u>
Amount of collateral held in respect of overdue advances	<u>1,355</u>	<u>1,197</u>	<u>2,552</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 was included.

10. 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 2006			
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:			
- three to six months	938	1,287	2,225
- six months to one year	384	595	979
- over one year	<u>1,238</u>	<u>859</u>	<u>2,097</u>
	<u>2,560</u>	<u>2,741</u>	<u>5,301</u>
Overdue advances to customers as a percentage of gross advances to customers:			
- three to six months	0.1 %	0.3 %	0.2 %
- six months to one year	0.1 %	0.1 %	0.1 %
- over one year	<u>0.2 %</u>	<u>0.2 %</u>	<u>0.2 %</u>
	<u>0.4 %</u>	<u>0.6 %</u>	<u>0.5 %</u>
Individually assessed impairment allowances made in respect of such overdue loans and advances	<u>(645)</u>	<u>(754)</u>	<u>(1,399)</u>

11. 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 2007			
Rescheduled advances to customers	<u>1,674</u>	<u>1,871</u>	<u>3,545</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.2%</u>	<u>0.4%</u>	<u>0.3%</u>
At 31 December 2006			
Rescheduled advances to customers	<u>1,730</u>	<u>2,307</u>	<u>4,037</u>
Rescheduled advances to customers as a percentage of gross advances to customers	<u>0.3%</u>	<u>0.6%</u>	<u>0.4%</u>

Rescheduled advances 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 over three months and which are included in overdue advances to customers (Note 10).

12. 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 2007		
Gross advances to customers for use in Hong Kong		
Industrial, commercial and financial		
Property development	46,718	11,021
Property investment	104,494	80,084
Financial concerns	12,586	2,130
Stockbrokers	9,323	1,103
Wholesale and retail trade	39,961	12,372
Manufacturing	18,995	4,351
Transport and transport equipment	25,710	18,145
Recreational activities	246	11
Information technology	2,021	16
Others	69,795	16,403
	<u>329,849</u>	<u>145,636</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	31,050	30,985
Advances for the purchase of other residential properties	170,166	169,483
Credit card advances	30,543	-
Others	33,270	13,003
	<u>265,029</u>	<u>213,471</u>
Gross advances to customers for use in Hong Kong	594,878	359,107
Trade finance	60,508	18,571
Gross advances to customers for use outside Hong Kong made by branches of the bank and subsidiary companies in Hong Kong	<u>16,459</u>	<u>3,265</u>
Gross advances to customers made by branches of the bank and subsidiary companies in Hong Kong	671,845	380,943
Gross advances to customers made by branches of the bank and subsidiary companies outside Hong Kong	<u>490,111</u>	<u>191,995</u>
Gross advances to customers	<u>1,161,956</u>	<u>572,938</u>

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

Figures in HK\$m

Gross advances

At 31 December 2006

Gross advances to customers for use in Hong Kong

Industrial, commercial and financial

Property development	46,352
Property investment	99,580
Financial concerns	10,136
Stockbrokers	964
Wholesale and retail trade	36,101
Manufacturing	17,331
Transport and transport equipment	27,408
Recreational activities	442
Information technology	2,494
Others	40,676
	<u>281,484</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	31,708
Advances for the purchase of other residential properties	171,014
Credit card advances	31,315
Others	26,966
	<u>261,003</u>

Gross advances to customers for use in Hong Kong 542,487

Trade finance 56,121

Gross advances to customers for use outside Hong Kong made by branches of the bank and subsidiary companies in Hong Kong 35,628

Gross advances to customers made by branches of the bank and subsidiary companies in Hong Kong 634,236

Gross advances to customers made by branches of the bank and subsidiary companies outside Hong Kong 416,389

Gross advances to customers 1,050,625

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 was included.

13. Individually assessed impaired advances

<i>Figures in HK\$m</i>	<u><i>Hong Kong</i></u>	<u><i>Rest of Asia-Pacific</i></u>	<u><i>Total</i></u>
At 30 June 2007			
Gross individually assessed impaired advances	3,238	3,052	6,290
Individually assessed impairment allowances	<u>(924)</u>	<u>(1,360)</u>	<u>(2,284)</u>
	<u>2,314</u>	<u>1,692</u>	<u>4,006</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>0.5%</u>	<u>0.6%</u>	<u>0.5%</u>

At 31 December 2006

Gross individually assessed impaired advances	3,176	2,178	5,354
Individually assessed impairment allowances	<u>(1,016)</u>	<u>(1,102)</u>	<u>(2,118)</u>
	<u>2,160</u>	<u>1,076</u>	<u>3,236</u>
Gross individually assessed impaired advances as a percentage of gross advances to customers	<u>0.5%</u>	<u>0.5%</u>	<u>0.5%</u>

Collateral held in respect of individually assessed impaired advances to customers:

<i>Figures in HK\$m</i>	<u><i>Hong Kong</i></u>	<u><i>Rest of Asia-Pacific</i></u>	<u><i>Total</i></u>
At 30 June 2007			
Amount of collateral which has been taken into account in respect of individually assessed impaired advances to customers	<u>2,136</u>	<u>1,359</u>	<u>3,495</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 was included.

13. Individually assessed impaired advances (*continued*)

For individually assessed customer advances where the industry sectors comprise more than 10 per cent of 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 2007				
Residential mortgages	311,048	2,435	(253)	(293)
Commercial, industrial and international trade	295,602	2,669	(1,598)	(1,466)
Commercial real estate	134,664	150	(43)	(55)
At 31 December 2006				
Residential mortgages	304,427	2,097	(264)	(315)
Commercial, industrial and international trade	264,554	1,906	(1,327)	(1,527)
Commercial real estate	130,758	166	(59)	(64)

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.

14. Repossessed assets

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Repossessed assets	<u>332</u>	<u>443</u>

Repossessed 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).

15. Non-bank Mainland exposures

The following analysis of non-bank Mainland exposures is based on the categories contained in the ‘Non-bank Mainland Exposures’ return as submitted to the Hong Kong Monetary Authority on a Bank level basis by The Hongkong and Shanghai Banking Corporation Limited.

In April 2007, HSBC Bank (China) Company Limited (“HBCN”), the Bank’s wholly owned subsidiary incorporated in mainland China, was established to take over the majority assets and liabilities of the Bank’s mainland branches. The mainland exposures of HBCN are not included in the HKMA return as of 30 June 2007 and, therefore, need not be disclosed.

<i>Figures in HK\$m</i>	<i>On balance sheet exposure</i>	<i>Contingent liabilities</i>	<i>Irrevocable undrawn commitments</i>	<i>FX and derivative contracts</i>	<i>Total exposure</i>	<i>Specific provision</i>
At 30 June 2007						
Counterparty type:						
ITICS and their subsidiaries	1,328	338	2,394	2	4,062	18
Red-chip companies and their subsidiaries	3,096	400	1,951	81	5,528	-
H-share companies and their subsidiaries	177	3,973	700	-	4,850	-
Other state, provincial or municipal government owned entities and their subsidiaries	4,879	1,957	3,660	13	10,509	35
Other entities incorporated or established in China	2,342	492	263	-	3,097	-
Companies and individuals outside China where the credit is granted for use in China	34,343	10,237	26,555	284	71,419	49
Other counterparties where the China exposure is considered by the reporting institution to be non-bank China exposure	204	1,373	437	16	2,030	-
Total	46,369	18,770	35,960	396	101,495	102
Memorandum: Companies and individuals for purchasing properties in China included in the above	-	-	-	-	-	-

15. Non-bank Mainland exposures (continued)

<i>Figures in HK\$m</i>	<i><u>On balance sheet exposure</u></i>	<i><u>Contingent liabilities</u></i>	<i><u>Irrevocable undrawn commitments</u></i>	<i><u>FX and derivative contracts</u></i>	<i><u>Total exposure</u></i>	<i><u>Specific provision</u></i>
At 31 Dec 2006						
Counterparty type:						
ITICS and their subsidiaries	1,992	354	2,374	11	4,731	22
Red-chip companies and their Subsidiaries	3,207	335	1,376	147	5,065	-
H-share companies and their subsidiaries	1,265	2,521	953	523	5,262	-
Other state, provincial or municipal government owned entities and their subsidiaries	9,224	5,525	3,442	435	18,626	34
Other entities incorporated or established in China	35,413	4,476	2,445	10,263	52,597	117
Companies and individuals outside China where the credit is granted for use in China	37,992	9,157	26,094	305	73,548	49
Other counterparties where the China exposure is considered by the reporting institution to be non-bank China exposure	<u>295</u>	<u>1,114</u>	<u>648</u>	<u>20</u>	<u>2,077</u>	<u>-</u>
Total	<u>89,388</u>	<u>23,482</u>	<u>37,332</u>	<u>11,704</u>	<u>161,906</u>	<u>222</u>
Memorandum: Companies and individuals for purchasing properties in China included in the above	2,952	-	-	-	2,952	-

16. 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 2007				
Americas				
United States	64,512	64,135	34,491	163,138
Other	48,090	5,547	50,837	104,474
	<u>112,602</u>	<u>69,682</u>	<u>85,328</u>	<u>267,612</u>
Europe				
United Kingdom	199,391	18	24,028	223,437
Other	524,449	3,292	19,568	547,309
	<u>723,840</u>	<u>3,310</u>	<u>43,596</u>	<u>770,746</u>
Asia-Pacific excluding Hong Kong	234,307	52,824	141,640	428,771
At 31 December 2006				
Americas				
United States	62,558	78,354	72,669	213,581
Other	38,585	6,568	47,393	92,546
	<u>101,143</u>	<u>84,922</u>	<u>120,062</u>	<u>306,127</u>
Europe				
United Kingdom	138,625	17	24,324	162,966
Other	405,950	5,010	18,981	429,941
	<u>544,575</u>	<u>5,027</u>	<u>43,305</u>	<u>592,907</u>
Asia-Pacific excluding Hong Kong	213,292	93,968	116,242	423,502

17. Financial investments

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Debt securities		
- available-for-sale	429,185	404,853
- held-to-maturity	44,042	40,407
	<u>473,227</u>	<u>445,260</u>
Equity shares		
- available-for-sale	54,018	39,581
	<u>527,245</u>	<u>484,841</u>

18. 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 2007				
Cost or valuation at 1 January 2007	22,537	2,947	13,022	38,506
Exchange and other adjustments	92	-	197	289
Additions	473	-	603	1,076
Disposals	-	-	(265)	(265)
Elimination of accumulated depreciation on revalued premises	(285)	-	-	(285)
Surplus on revaluation	1,311	160	-	1,471
Reclassifications [†]	(463)	(423)	(76)	(962)
At 30 June 2007	<u>23,665</u>	<u>2,684</u>	<u>13,481</u>	<u>39,830</u>
Accumulated depreciation at 1 January 2007	32	-	9,315	9,347
Exchange and other adjustments	2	-	136	138
Charge for the period	324	-	681	1,005
Disposals	-	-	(220)	(220)
Elimination of accumulated depreciation on revalued premises	(285)	-	-	(285)
Reclassifications [†]	(3)	-	(56)	(59)
At 30 June 2007	<u>70</u>	<u>-</u>	<u>9,856</u>	<u>9,926</u>
Net book value at 30 June 2007	<u>23,595</u>	<u>2,684</u>	<u>3,625</u>	<u>29,904</u>

[†] Includes amount reclassified as 'Assets held for sale', which is reported under 'Other assets'.

19. Trading liabilities

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Certificates of deposit in issue	37,195	70,538
Other debt securities in issue	52,077	25,342
Short positions in securities	58,614	49,409
Deposits by banks	30,112	22,023
Customer accounts	98,993	105,233
	<u>276,991</u>	<u>272,545</u>

20. Financial liabilities designated at fair value

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Deposits by banks	662	356
Customer accounts	2,602	2,482
Subordinated liabilities	969	987
Liabilities to customers under investment contracts	33,578	32,729
	<u>37,811</u>	<u>36,554</u>

21. Debt securities in issue

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Certificates of deposit	50,507	49,288
Other debt securities	23,486	19,907
	<u>73,993</u>	<u>69,195</u>

22. 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 2007</i>	<i>At 31 December 2006</i>
US\$1,200m	Primary capital subordinated undated floating rate notes [†]	9,408	9,370
Rs 2,000m	Fixed rate (13.05%) subordinated loans due 2009	384	351
A\$70m	Subordinated floating rate notes callable quarterly from 2007 to 2012	459	425
A\$200m	Subordinated floating rate notes callable quarterly from 2011 to 2016	1,328	1,228
HK\$1,500m	Callable floating rate subordinated notes due 2015	1,496	1,496
US\$450m	Callable floating rate subordinated notes due 2016	3,503	3,483
US\$300m	Callable floating rate subordinated notes due 2017	2,342	-
		<u>18,920</u>	<u>16,353</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 20):

<i>Figures in HK\$m</i>		<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
HK\$1,000m	Callable fixed rate (4.125%) subordinated notes due 2015	<u>969</u>	<u>987</u>

23. Contingent liabilities, commitments and derivatives

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk- weighted amount</i>
At 30 June 2007			
Contingent liabilities and commitments			
- Direct credit substitutes	58,310	57,424	54,473
- Transaction-related contingencies	71,021	33,783	30,497
- Trade-related contingencies	91,125	17,675	17,392
- Commitments that are unconditionally cancellable without prior notice	872,413	-	-
- Undrawn formal standby facilities, credit lines and other commitments:			
- one year and less	96,919	19,384	19,384
- over one year	102,594	51,297	48,158
	<u>1,292,382</u>	<u>179,563</u>	<u>169,904</u>
Derivatives			
Exchange rate contracts	5,074,807	77,327	35,161
Interest rate contracts	9,212,244	42,685	17,252
Forward asset purchases and forward forward deposits placed	1,918	1,918	1,918
Other derivative contracts	641,522	28,808	7,625
	<u>14,930,491</u>	<u>150,738</u>	<u>61,956</u>

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

For the purposes of this Interim Disclosure Statement, acceptances and endorsements are recognised on the balance sheet in 'Other assets' in accordance with HKAS 39. 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. The contract amount of acceptances and endorsements included in the above table was HK\$29,585 million.

The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Capital Rules and depend on the status of the counterparty and maturity characteristics of the instrument. The risk-weights used range from 0 per cent to 150 per cent.

With the Capital Rules effective from 1 January 2007, The Hongkong and Shanghai Banking Corporation Limited uses the approaches approved by the Hong Kong Monetary Authority to calculate the capital adequacy ratio in accordance with the Capital Rules. This basis of calculation of risk-weighted assets is different to the basis used at 31 December 2006. The figures are therefore not strictly comparable.

23. Contingent liabilities, commitments and derivatives *(continued)*

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.

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 indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

23. Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk- weighted amount</i>
At 31 December 2006			
Contingent liabilities			
- Guarantees	100,964	73,862	60,534
- Other	35	35	35
	<u>100,999</u>	<u>73,897</u>	<u>60,569</u>
Commitments			
- Documentary credits and short-term trade-related transactions	56,732	21,632	11,680
- Undrawn note issuing and revolving underwriting facilities	1,166	583	-
- Undrawn formal standby facilities, credit lines and other commitments:			
- one year and over	94,241	47,120	43,635
- under one year	887,680	-	-
	<u>1,039,819</u>	<u>69,335</u>	<u>55,315</u>
Derivatives			
Exchange rate contracts			
- Spot and forward foreign exchange	3,267,333	52,122	13,334
- Other exchange rate contracts	1,262,208	56,377	16,868
	<u>4,529,541</u>	<u>108,499</u>	<u>30,202</u>
Interest rate contracts			
- Interest rate swaps	6,919,779	69,936	17,832
- Other interest rate contracts	918,146	5,641	1,808
	<u>7,837,925</u>	<u>75,577</u>	<u>19,640</u>
Forward asset purchases and forward forward deposits placed	2,588	2,588	2,463
Other derivative contracts	554,801	27,935	9,041
	<u>557,389</u>	<u>30,523</u>	<u>11,504</u>
Impact of counterparty netting agreements on derivatives exposure	-	(67,516)	(14,352)

The table above gives the nominal contract amounts, credit equivalent amounts and risk-weighted amounts of contingent liabilities, commitments and derivatives. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Third Schedule of the Hong Kong Banking Ordinance on capital adequacy and depend on the status of the counterparty and maturity characteristics. The risk-weights used range from 0 per cent to 100 per cent.

The table above does not include acceptances and endorsements. For comparative purposes, the contract amount in respect of acceptances and endorsements was HK\$26,729 million, credit equivalent amount was HK\$5,631 million and risk weighted amount was HK\$5,453 million as at 31 December 2006.

23. Contingent liabilities, commitments and derivatives *(continued)*

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.

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 indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Fair value of derivative assets

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Exchange rate contracts	50,536	42,053
Interest rate contracts	58,710	46,862
Other derivative contracts	13,549	6,637
	122,795	95,552
Less: netting adjustments	(63,208)	(40,339)
	59,587	55,213

The table above gives the fair value of derivative contracts that are contained in the 'Capital Adequacy Ratio' return required to be submitted to the Hong Kong Monetary Authority by The Hongkong and Shanghai Banking Corporation Limited on a consolidated basis that is specified by the Hong Kong Monetary Authority under the requirement of section 98(2) of the Banking Ordinance.

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.

A breakdown of the fair value of derivative assets as shown on the balance sheet is as follows:

Fair value of derivative assets

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Exchange rate contracts	54,059	42,862
Interest rate contracts	60,192	46,809
Other derivative contracts	13,845	9,496
	128,096	99,167

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 which exceeded 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 2007		
Chinese renminbi	77,329	79,401
United States dollars	1,898	14,839
At 31 December 2006		
Chinese renminbi	55,178	54,960
United States dollars	2,043	15,886

The group had the following non-structural foreign currency positions which exceeded 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 2007				
Spot assets	1,328,191	33,005	33,242	128,788
Spot liabilities	(1,327,714)	(69,294)	(127)	(116,103)
Forward purchases	2,944,433	250,175	280	177,511
Forward sales	(2,939,726)	(209,619)	(37,282)	(196,807)
Net options position	3,936	(17)	-	-
	<u>9,120</u>	<u>4,250</u>	<u>(3,887)</u>	<u>(6,611)</u>
At 31 December 2006				
Spot assets	1,205,314	118,964	27,665	78,111
Spot liabilities	(1,222,334)	(140,566)	(107)	(69,689)
Forward purchases	2,222,005	168,534	24,949	97,130
Forward sales	(2,210,290)	(141,505)	(57,857)	(104,949)
Net options position	(132)	-	-	-
	<u>(5,437)</u>	<u>5,427</u>	<u>(5,350)</u>	<u>603</u>

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

25. Liquidity ratio

The Hong Kong 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 in Hong Kong.

<i>Half-year ended</i>	<i>Half-year ended</i>
<i>30 June</i>	<i>30 June</i>
<i>2007</i>	<i>2006</i>

The average liquidity ratio for the period was as follows:

Hong Kong branches of the bank	<u>55.6%</u>	<u>49.1%</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 Hong Kong Monetary Authority by The Hongkong and Shanghai Banking Corporation Limited on a consolidated basis that is specified by the Hong Kong Monetary Authority under the requirement of section 98(2) of the Banking Ordinance.

With the Banking (Capital) Rules ('the Capital Rules') effective on 1 January 2007, the Hongkong and Shanghai Banking Corporation Limited uses the standardised approach to calculate credit risk, operational risk and market risk; however, an internal model approach is adopted for calculating the general market risk and a separate model is used for calculating the market risk relating to equity options. This basis is different to the basis used at 31 December 2006, and the numbers are therefore not strictly comparable.

Figures in HK\$m

At 30 June 2007

Composition of capital

Core Capital:

Paid-up ordinary share capital	21,040
Paid-up irredeemable non-cumulative preference shares	52,009
Published reserves	72,240
Profit and loss account	16,096
Minority interests ^{††††}	20,251
Less: Deduction from core capital	(8,723)
50% of total amount of deductible items	
(@50%) ^{†††††}	(29,495)
Total core capital	<u>143,418</u>

Supplementary Capital:

Property revaluation reserves [†]	5,171
Available-for-sale investments revaluation reserves ^{††}	17,899
Unrealised fair value gains from financial instruments designated at fair value through profit or loss	57
Regulatory reserve ^{†††}	3,309
Collective provisions	4,681
Perpetual subordinated debt	9,408
Paid-up irredeemable cumulative preference shares	16,651
Term subordinated debt	12,466
Paid-up term preference shares	10,163
Less: 50% of total amount of deductible items	
(@50%) ^{†††††}	(29,495)
Total supplementary capital	<u>50,310</u>

Capital base	<u>193,728</u>
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Total deductible items^{†††††}	<u>58,990</u>
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26. Capital adequacy (continued)

- † Includes the revaluation surplus on investment properties which is reported as part of retained profits.
- †† Includes adjustments made in accordance with guidelines issued by the HKMA.
- ††† The regulatory reserve is maintained for satisfying the Banking Ordinance for prudential supervision.
- †††† After deduction of minority interests in unconsolidated subsidiary companies.
- ††††† Total deductible items are deducted from institution's core capital and supplementary capital.

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

	<i>At 30 June</i> <u>2007</u>
Capital adequacy ratio	<u>11.2%</u>
Core capital ratio	<u>8.3%</u>

26. Capital adequacy (continued)

The table below sets out any analysis of regulatory capital and capital adequacy ratios for the group. They are calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

This basis is different to the basis used at 30 June 2007, and the numbers are therefore not strictly comparable.

Figures in HK\$m

At 31 December 2006

Composition of capital

Tier 1:

Total shareholders' equity	145,450
Less: proposed dividend	(6,500)
property revaluation reserves [†]	(7,892)
available-for-sale investment reserve ^{††}	(26,028)
classified as regulatory reserve ^{†††}	(1,689)
goodwill	(4,182)
others	(138)
Irredeemable non-cumulative preference shares	51,735
Minority interests ^{††††}	17,483
Total qualifying tier 1 capital	168,239

Tier 2:

Property revaluation reserves (@70%)	5,524
Available-for-sale investment reserve (@70%)	18,220
Collective impairment provision and regulatory reserve	6,610
Perpetual subordinated debt	9,370
Term subordinated debt	9,849
Term preference shares	8,165
Irredeemable cumulative preference shares	16,563
Total qualifying tier 2 capital	74,301

Deductions (58,559)

Total capital **183,981**

Risk-weighted assets **1,367,607**

[†] Includes the revaluation surplus on investment properties, which is now reported as part of retained profits.

^{††} Includes adjustments made in accordance with guidelines issued by HKMA.

^{†††} The regulatory reserve is maintained for the purpose of satisfying the Banking Ordinance for prudential supervision. Movements in this reserve are made in consultation with the HKMA.

^{††††} After deduction of minority interests in unconsolidated subsidiary companies.

26. Capital adequacy (continued)

The group's capital adequacy ratios adjusted for market risks calculated in accordance with the HKMA Guideline on 'Maintenance of Adequate Capital Against Market Risks' are as follows:

	<i>At 31 December</i> <u>2006</u>
Total capital	<u>13.5%</u>
Tier 1 capital	<u>12.3%</u>

The group's capital adequacy ratios calculated in accordance with the provisions of the Third Schedule of the Banking Ordinance, which does not take into account market risks, are as follows:

	<i>At 31 December</i> <u>2006</u>
Total capital	<u>13.0%</u>
Tier 1 capital	<u>11.8%</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 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 Hong Kong Monetary Authority 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 Capital Rules and the Banking Ordinance.

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

With respect to Notes 23 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 Securities Limited

Hang Seng Life 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 news release are the same as those applied in preparing the accounts for the year ended 31 December 2006, as disclosed in the Annual Report and Accounts for 2006, except where otherwise stated.

29. Statutory accounts

The information in this news release is not audited and does not constitute statutory accounts.

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2006 which have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The Auditors expressed an unqualified opinion on those statutory accounts in their report dated 5 March 2007. The Annual Report and Accounts for The Hongkong and Shanghai Banking Corporation Limited for the year ended 31 December 2006, which include the statutory accounts, can be obtained on request from Group Public Affairs, 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.