

Hang Seng Bank Limited
Macau Branch

*Financial disclosure
(unaudited)*

for the six-month period ended 30 June 2019

Balance sheet as of 30 June 2019

(Expressed in thousands of Macau Patacas)

<i>Asset</i>	<i>Assets gross amount</i>	<i>Provisions, amortisation and devaluation</i>	<i>Assets net amount</i>
Cash	17,429	-	17,429
Deposits with AMCM	140,635	-	140,635
Cheques and bills receivables	5,247	-	5,247
Current deposits with other local credit institutions	2,439,473	-	2,439,473
Current deposits with other overseas credit institutions	185,426	-	185,426
Gold and silver	-	-	-
Other current assets	-	-	-
Loans and advances to customers	15,279,371	60,615	15,218,756
Placement with local credit institutions	-	-	-
Call and time deposits with overseas credit institutions	2,115,238	-	2,115,238
Equity securities, bonds and shareholdings	-	-	-
Applications & resources consigned to the bank	-	-	-
Debtors	-	-	-
Other investment	-	-	-
Financial investment	-	-	-
Immovable properties	-	-	-
Equipments	21,625	15,567	6,058
Deferred expenses	-	-	-
Organisation costs	-	-	-
Immovable properties in progress	-	-	-
Other fixed assets	-	-	-
Internal and adjustment accounts	58,232	-	58,232
Total	20,262,676	76,182	20,186,494

Balance sheet as of 30 June 2019 (continued)

(Expressed in thousands of Macau Patacas)

<i>Liabilities</i>	<i>Sub-total</i>	<i>Total</i>
Current deposits	2,345,450	
Call deposits	-	
Time deposits	419,805	2,765,255
Deposits from public sector entities	-	
Placement from local credit institutions	-	
Placement from other local institutions	-	
Foreign currencies debts	16,043,720	
Bond debts	-	
Creditors of applications & resources consigned to the bank	-	
Cheques and bills payable	17,560	
Creditors	-	
Other liabilities	-	16,061,280
Internal and adjustment accounts	80,903	
Risk reserve	158,936	
Capital	52,300	
Legal reserve	-	
Self-constituted reserve	-	
Other reserves	-	
Revaluation reserve	-	292,139
Retained earnings	997,694	
Profit and loss for the period	70,126	1,067,820
Total		20,186,494

Income statement

for the six-month period ended 30 June 2019

Operating account

(Expressed in thousands of Macau Patacas)

<i>Debit</i>	<i>Amount</i>	<i>Credit</i>	<i>Amount</i>
Costs of credit operations	158,212	Income from credit operations	259,127
Personnel costs	-	Income from banking services	22,673
Directors and supervisory committee emoluments	-	Income from other banking services	-
Employee remuneration	16,988	Income from securities and equity investments	-
Staff benefit costs	1,551	Other banking income	-
Other personnel costs	-	Income from non-banking operations	-
Third party supply	132	Operation loss	-
Third party services	4,995		
Other banking costs	12,348		
Taxation	-		
Costs of non-banking operations	-		
Depreciation allowances	2,056		
Provision allowances	6,049		
Operating profit	79,469		
Total	281,800	Total	281,800

Profit and loss account

(Expressed in thousands of Macau Patacas)

<i>Debit</i>	<i>Amount</i>	<i>Credit</i>	<i>Amount</i>
Operating loss	-	Operating profit	79,469
Losses related to previous years	-	Profit related to previous years	-
Exceptional losses	-	Exceptional profits	-
Profit tax provision	9,343	Provision used up	-
Additional provision in accordance with Financial System Act	-	Profit and loss for the period (loss)	-
Profit and loss for the period (profit)	70,126		
Total	79,469	Total	79,469

Cash flow statement

for the six-month period ended 30 June 2019

(Expressed in thousands of Macau Patacas)

	<i>Amount</i>
Cash flow from operating activities	
Profit before income tax	79,469
Depreciation	2,056
Loan impairment charge	6,049
Interest income	(259,127)
Interest expense	158,212
Interest received	239,522
Interest paid	(159,501)
Decrease in minimum deposits with AMCM	3,391
Increase in gross loans and advances to customers	(805,572)
Decrease in other assets	2,649
Increase in balances with banks with original maturity more than three months	(392,077)
Increase in deposits from customers	618,269
Increase in deposits and balances from banks	1,328,464
Decrease in other liabilities	(4,488)
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Cash inflow from operating activities before taxation	817,316
Macau complementary tax paid	-
Withholding tax refund received	640
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Cash inflow from operating activities	817,956
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Cash flows from investing activities	
Purchase of tangible fixed assets	(80)
Proceeds from redemption of investments	-
Payment for purchase of investments	-
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Cash outflow from investing activities	(80)
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Cash flows from financing activities	
Capital contribution from Head Office	-
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Increase in cash and cash equivalents	817,876
Cash and cash equivalents at 1 January	2,790,184
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Cash and cash equivalents at 30 June	3,608,060
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For the purpose of cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition	
Cash and balances with banks	3,513,378
Deposit with AMCM in excess of minimum statutory requirement	106,995
Items in course of collection from other banks	5,247
Items in course of transmission to other banks	(17,560)
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	3,608,060
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Off-balance sheet exposures

(a) *Contingent liabilities and commitments*

(Expressed in thousands of Macau Patacas)

<i>As at 30 June 2019</i>	<i>Amount</i>
Bank guarantees	55,861
Commitments:	
Trade-related contingencies	296,860
Acceptance on the trade bills	580,090
Undrawn formal standby facilities, credit lines and other commitments to lend	3,914,384
	4,791,334

(b) *Lease commitments*

The Branch leases a number of properties under operating leases. The leases typically run for a period of one to three years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

At 30 June 2019, the total future minimum lease payments under non-cancellable operating leases are as follows:

(Expressed in thousands of Macau Patacas)

	<i>Amount</i>
Not later than one year	6,954
Later than one year and not later than five years	5,206
	12,160

Derivative transactions

The following table gives the notional contract amounts, marked to market value of assets and liabilities, credit equivalent amounts and risk-weighted amounts as at 30 June 2019.

(Expressed in thousands of Macau Patacas)

	<i>Contract amount</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Credit equivalent amount</i>	<i>Risk-weighted amount</i>
Exchange rate contracts					
– Forward contracts	259,310	886	886	2,593	1,556
Interest rate contracts	-	-	-	-	-
Equities contracts	-	-	-	-	-
Commodities contracts	-	-	-	-	-
Others	-	-	-	-	-

Material related-party transactions

(a) **Transactions with Head Office, a subsidiary of Head Office and other related companies**

The aggregate amount of income and expenses arising from these transactions during the period, and the total contract sum of off-balance sheet transactions at 30 June 2019 are as follows:

(Expressed in thousands of Macau Patacas)

	<i>Amount</i>
Interest income from Head Office and a subsidiary of Head Office	29,003
Interest expenses to Head Office	(151,841)
Fee and commission paid to Head Office and a subsidiary of Head office	(4,507)
Management fee paid to Head Office	(4,475)
Operating expenses paid to other related companies	(1,749)
	<u>(133,569)</u>
Notional forward exchange rate contracts	<u>129,655</u>

The balances with Head Office and a subsidiary of Head office at 30 June 2019 are as follows:

(i) Assets

(Expressed in thousands of Macau Patacas)

	<i>Amount</i>
Cash and balances with banks	
- Demand deposits	185,298
- Placement	2,115,238
Other assets	
- Interest receivables	8,036
- Derivative financial instruments	26
	<u>2,308,598</u>

(ii) Liabilities

(Expressed in thousands of Macau Patacas)

	<i>Amount</i>
Deposits and balances from banks	
- Demand and placements from banks	16,043,720
- Other balances from banks	-
Other liabilities	
- Interest payable	44,140
- Derivative financial instruments	911
	<u>16,088,771</u>

Material related-party transactions (continued)

(b) **Key management personnel's remuneration**

During the first six-month period, the remuneration of key management personnel, which is included in "staff cost", is as follows:

(Expressed in thousands of Macau Patacas)

	<i>Amount</i>
Executive officers	1,534

(c) **Material transactions with key management personnel**

During the first six-month period, the Branch did not provide credit facilities to key management personnel of the Branch and its Head Office, their close family members and companies controlled or significantly influenced by them.

Credit risk

(a) Geographic distribution of exposure

(Expressed in thousands of Macau Patacas)

	<i>Banks</i>	<i>Governments</i>	<i>Public sector entities</i>	<i>Others</i>	<i>Total exposures</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances²</i>	<i>Specific provision</i>	<i>General provision</i>
Loans & commitments ¹									
– Macau	-	-	-	17,362,568	17,362,568	45,492	45,492	(43,335)	(143,873)
– Hong Kong	-	-	-	1,607,855	1,607,855	-	-	-	(13,358)
– Others	-	-	-	223,332	223,332	18,143	18,143	(17,280)	(1,705)
	-	-	-	19,193,755	19,193,755	63,635	63,635	(60,615)	(158,936)
Debt securities									
– Macau	-	-	-	-	-				
– Hong Kong	-	-	-	-	-				
– Others	-	-	-	-	-				
	-	-	-	-	-				
Financial derivatives									
– Macau	-	-	-	129,655	129,655				
– Hong Kong	-	-	-	129,655	129,655				
– Others	-	-	-	-	-				
	-	-	-	259,310	259,310				

¹ Undrawn formal standby facilities, credit lines and other commitments to lend are included.

² Loans and advances which have been overdue with respect to either principal or interest for periods of more than three months.

Credit risk (continued)

(b) Industry distribution of exposures of loans and advances

(Expressed in thousands of Macau Patacas)

	Gross loans and advances	Individually impaired loans and advances	Overdue loans and advances ¹	Specific provision	General provision
Manufacturing	32,416	-	-	-	(339)
Electricity, gas and water	-	-	-	-	-
Construction and public works	465,883	-	-	-	(4,866)
Trade (wholesale and retail)	5,783,659	63,635	63,635	(60,615)	(59,748)
Restaurants, hotels and related activities	-	-	-	-	-
Transport, warehouse and communications	-	-	-	-	-
Individuals for house purchases	3,310,072	-	-	-	(34,575)
Individuals for other purposes	174,250	-	-	-	(1,820)
Others	5,513,091	-	-	-	(57,588)
	<u>15,279,371</u>	<u>63,635</u>	<u>63,635</u>	<u>(60,615)</u>	<u>(158,936)</u>

¹ Loans and advances which have been overdue with respect to either principal or interest for periods of more than three months.

(c) Maturity analysis on assets and liabilities

(Expressed in thousands of Macau Patacas)

	Repayable on demand	1 month or less but not repayable on demand	3 months or less but over 1 month	1 year or less but over 3 months	3 years or less but over 1 year	After 3 years	Indefinite period	Total
Assets								
Loans and advances to customers	11,158	4,545,706	644,046	611,155	1,419,549	7,828,206	-	15,059,820
Cash and balances with and loans and advances to banks	2,749,323	1,033,808	797,036	318,034	-	-	-	4,898,201
Certificates of deposits held	-	-	-	-	-	-	-	-
Securities issued by Macau SAR Government and/or AMCM	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-
Liabilities								
Deposits and balances of banks and financial institutions	1,025,465	4,674,657	649,807	9,674,189	19,602	-	-	16,043,720
Deposits from public sector entities	-	-	-	-	-	-	-	-
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Deposits from non-bank customers	2,345,450	237,512	180,053	2,240	-	-	-	2,765,255
Certificates of deposits issued	-	-	-	-	-	-	-	-
Other securities issued	-	-	-	-	-	-	-	-

Credit risk (continued)

(d) Overdue loans and advances to banks

There were no overdue loans and advances to banks as at 30 June 2019.

(e) Overdue loans and advances to non-bank customers

(Expressed in thousands of Macau Patacas)

	<i>Gross loans and advances</i>	<i>% of total loans and advances to non-bank customers</i>	<i>Collateral value</i>	<i>Specific Provision</i>
Loans and advances to non-bank 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	-	-	-	-
- more than six months but not more than one year	63,635	0.42%	15,893	(60,615)
- more than one year	-	-	-	-
	<u>63,635</u>	<u>0.42%</u>	<u>15,893</u>	<u>(60,615)</u>

(f) Overdue other assets

There were no overdue loans and advances to overdue other assets as at 30 June 2019.

Foreign exchange risk

Net long or net short positions in foreign currencies at 30 June 2019 are as follows:

(Expressed in thousands of Macau Patacas)

	<i>Spot assets</i>	<i>Spot liabilities</i>	<i>Forward purchases</i>	<i>Forward sales</i>	<i>Net options position</i>	<i>Net long (or net short) position</i>
Chinese renminbi	12,579	(12,319)	-	-	-	260
Hong Kong dollars	15,606,771	(15,605,076)	-	-	-	1,695
US dollars	2,915,946	(2,915,654)	43,024	(43,024)	-	292
Other foreign currencies	111,042	(110,922)	86,631	(86,631)	-	120
	<u>18,646,338</u>	<u>(18,643,971)</u>	<u>129,655</u>	<u>(129,655)</u>	<u>-</u>	<u>2,367</u>

Liquidity risk

During the six-month period ended 30 June 2019:

(Expressed in thousands of Macau Patacas)

The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	55,058
The arithmetic mean of the average weekly amount of cash in hand	167,910
The arithmetic mean of the specified liquid assets at the end of each month	2,309,860
The average ratio of specified liquid asset to total basic liabilities at the end of each month	101%
The arithmetic mean of one-month liquidity ratio in the last week of each month	103%
The arithmetic mean of three-month liquidity ratio in the last week of each month	103%

List of the shareholders with qualifying holdings

Hang Seng Bank Limited

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the Securities and Futures Ordinance (“SFO”) recorded that, as at 30 June 2019, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

<u>Name of Corporation</u>	<u>Number of Ordinary Shares in the Bank (Percentage of total)</u>
The Hongkong and Shanghai Banking Corporation Limited (“HBAP”)	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, the interests of The Hongkong and Shanghai Banking Corporation Limited are recorded as the interests of HSBC Asia Holdings Limited and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 30 June 2019, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Names of the members of the company boards

Hang Seng Bank Limited

List of Directors

At 5 August 2019, the members of the board of Directors of Hang Seng Bank Limited are set out below.

Independent Non-executive Chairman

Raymond CH'EN Kuo Fung (*Chairman*)

Executive Directors

Louisa CHEANG Wai Wan (*Vice-Chairman and Chief Executive*)

Margaret KWAN Wing Han

Non-executive Directors

Nixon CHAN Lik Sang

Kathleen GAN Chieh Huey

Vincent LO Hong Sui

Kenneth NG Sing Yip

Peter WONG Tung Shun

Independent Non-executive Directors

John CHAN Cho Chak

CHIANG Lai Yuen

Irene LEE Yun Lien

Eric LI Ka Cheung

Michael WU Wei Kuo

Consolidated capital ratios

Hang Seng Bank Limited

The following tables show the capital base, risk-weighted assets and capital ratios as contained in the “Capital Adequacy Ratio” return required to be submitted to the Hong Kong Monetary Authority (“HKMA”) by the Bank on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules. The basis is different from that for accounting purposes. Further information on the regulatory consolidation basis is set out in the Banking Disclosure Statement that is available in the Regulatory Disclosures section of our website www.hangseng.com.

The Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

We closely monitor and consider future regulatory change and continue to evaluate the impact upon our capital requirements of regulatory developments. This includes the Basel III reforms package, over which there remains a significant degree of uncertainty due to the number of national discretions within Basel’s reforms. It remains premature to provide details of an impact although we currently anticipate the potential for an increase in risk-weighted assets.

Consolidated capital ratios (continued)

Capital base

(Figures in HK\$ million)

At 30 June 2019

Common Equity Tier 1 (“CET1”) Capital

Shareholders' equity	138,263
- Shareholders' equity per Condensed Consolidated balance sheet	172,721
- Additional Tier 1 (“AT1”) perpetual capital instrument	(11,744)
- Unconsolidated subsidiaries	(22,714)

Non-controlling interests	-
- Non-controlling interests per Condensed Consolidated balance sheet	117
- Non-controlling interests in unconsolidated subsidiaries	(117)

Regulatory deductions to CET1 capital	(32,318)
- Cash flow hedging reserve	(34)
- Changes in own credit risk on fair valued liabilities	(12)
- Property revaluation reserves*	(27,160)
- Regulatory reserve	(4,112)
- Intangible assets	(725)
- Defined benefit pension fund assets	(15)
- Deferred tax assets net of deferred tax liabilities	(113)
- Valuation adjustments	(147)

Total CET1 Capital **105,945**

AT1 Capital

Total AT1 capital before and after regulatory deductions	11,744
- Perpetual capital instrument	11,744

Total AT1 Capital **11,744**

Total Tier 1 (“T1”) Capital **117,689**

Tier 2 (“T2”) Capital

Total T2 capital before regulatory deductions	14,973
- Property revaluation reserves*	12,222
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	2,751

Regulatory deductions to T2 capital	(915)
- Significant capital investments in unconsolidated financial sector entities	(915)

Total T2 Capital **14,058**

Total Capital **131,747**

* Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.

Consolidated capital ratios (continued)

(Figures in HK\$ million)

At 30 June 2019

Total Risk-weighted assets

647,067

Capital ratios

CET1 capital ratio

16.4%

Tier1 capital ratio

18.2%

Total capital ratio

20.4%

Consolidated assets, liabilities and profits positions

Hang Seng Bank Limited

(Figures in HK\$ million)

At 30 June 2019

Total assets	1,656,652
Total liabilities	1,483,814
Total loans and advances	919,845
Total customer deposits including current, savings and other deposit accounts and certificates of deposit and other debt securities in issue	1,240,554
Pre-tax profit	15,894