

Hang Seng Bank Limited
Macau Branch

*Financial disclosure
(unaudited)*

for the year ended 31 December 2021

Balance sheet as of 31 December 2021

(Expressed in thousands of Macau Patacas)

<i>Assets</i>	<i>Assets gross amount</i>	<i>Provisions, amortisation and devaluation</i>	<i>Assets net amount</i>
Cash	24,122	-	24,122
Deposits with AMCM	195,751	-	195,751
Cheques and bills receivables	10,823	-	10,823
Current deposits with other local credit institutions	2,566,888	-	2,566,888
Current deposits with other overseas credit institutions	193,050	-	193,050
Gold and silver	-	-	-
Other current assets	-	-	-
Loans and advances to customers	14,551,179	36,217	14,514,962
Placement with local credit institutions	-	-	-
Call and time deposits with overseas credit institutions	1,256,978	-	1,256,978
Equity securities, bonds and shareholdings	-	-	-
Applications & resources consigned to the bank	-	-	-
Debtors	-	-	-
Other investment	-	-	-
Financial investment	-	-	-
Immovable properties	-	-	-
Equipments	35,207	12,763	22,444
Deferred expenses	-	-	-
Organisation costs	-	-	-
Immovable properties in progress	-	-	-
Other fixed assets	-	-	-
Internal and adjustment accounts	20,723	-	20,723
Total	18,854,721	48,980	18,805,741

Balance sheet as of 31 December 2021 (continued)

(Expressed in thousands of Macau Patacas)

<i>Liabilities</i>	<i>Sub-total</i>	<i>Total</i>
Current deposits	1,296,776	
Call deposits	-	
Time deposits	428,530	1,725,306
Deposits from public sector entities	-	
Placement from local credit institutions	-	
Placement from other local institutions	-	
Foreign currencies debts	15,406,022	
Bond debts	-	
Creditors of applications & resources consigned to the bank	-	
Cheques and bills payable	1,377	
Creditors	-	
Other liabilities	-	15,407,399
Internal and adjustment accounts	47,513	
Risk reserve	155,988	
Capital	52,300	
Legal reserve	-	
Self-constituted reserve	-	
Other reserves	-	
Revaluation reserve	-	255,801
Retained earnings	1,280,435	
Profit and loss for the year	136,800	1,417,235
Total		18,805,741

Income statement for the year ended 31 December 2021

Operating account

(Expressed in thousands of Macau Patacas)

<i>Debit</i>	<i>Amount</i>	<i>Credit</i>	<i>Amount</i>
Costs of credit operations	25,311	Income from credit operations	242,847
Personnel costs		Income from banking services	20,204
Directors and supervisory committee emoluments	-	Income from other banking services	-
Employee remuneration	34,174	Income from securities and equity investments	-
Staff benefit costs	2,673	Other banking income	-
Other personnel costs	2	Income from non-banking operations	-
Third party supply	348	Operation loss	-
Third party services	12,690		
Other banking costs	19,546		
Taxation	-		
Costs of non-banking operations	-		
Depreciation allowances	6,116		
Provision allowances	8,470		
Operating profit	153,721		
Total	263,051	Total	263,051

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	153,721
Losses related to previous years	-	Profit related to previous years	-
Exceptional losses	-	Exceptional profits	-
Profit tax provision	16,921	Provision used up	-
Additional provision in accordance with Financial System Act	-		
Profit and loss for the year (profit)	136,800	Profit and loss for the year (loss)	-
Total	153,721	Total	153,721

Hang Seng Bank Limited Macau Branch – Operational Results Summary

Operating conditions continued to be challenging in 2021. With the world still feeling the pinch of the economic and social consequences of the Covid-19 pandemic, investor and business sentiment dampened in the second half of the year in response to the emergence of the new Omicron variant, which brought back disruptions to trade and global supply chains, resulting in a slowdown of the economic recovery.

In this testing environment, the Macau Branch of Hang Seng Bank Limited (the ‘Branch’) continued to move forward with strengthening its long-term business resilience by implementing service innovations for the benefit of its customers and the community. These ongoing enhancements reflect Hang Seng’s customer-centric philosophy of making banking simple and convenient and taking service experiences to new levels.

The principal activities of the Branch during 2021 were the provision of banking services to commercial and personal customers, including diversified deposit and trade finance services, cross-boundary renminbi trade services, mortgage loans, corporate lending, remittances and foreign exchange, bills collection and insurance agency services. As at 31 December 2021, customer deposits and customer loans were MOP1,725m and MOP14,551m respectively. Profit after tax for the year was MOP137m.

Looking ahead, the Branch will continue to take a dynamic, yet strategic, approach to its operations so as to achieve sustainable growth irrespective of changing market conditions. Continued investment will also be made in optimising the market position of its services, by staying active in the syndicated loan market, exploring new business potential in green finance, and capturing new opportunities arising from the Greater Bay Area.

On behalf of the Branch management, I would like to take this opportunity to express our sincere appreciation for the continued strong support we have received from government authorities as well as our customers and staff.

Isidorus Fong
Branch Manager
Hang Seng Bank Limited, Macau Branch

EXTERNAL AUDITOR’S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

TO THE MANAGEMENT OF HANG SENG BANK LIMITED – MACAU BRANCH

The attached summary financial statements of Hang Seng Bank Limited - Macau Branch (the “Branch”) for the year ended 31 December 2021 have been derived from the audited financial statements and the books and records of the Branch for the year ended on the same date. These summary financial statements, which comprise the balance sheet as at 31 December 2021 and the income statement for the year then ended, are the responsibility of the management. Our responsibility is to express an opinion solely to you, as a body, as to whether the summary financial statements are consistent, in all material respects, with the audited financial statements and the books and records of the Branch, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We have audited the financial statements of the Branch for the year ended 31 December 2021 in accordance with General Auditing Standards issued by the Government of the Macau Special Administrative Region and have issued an auditor’s report with an unqualified opinion on these financial statements dated 25 April 2022.

The audited financial statements comprise the balance sheet as at 31 December 2021, and the income statement, statement of changes in reserves and cash flow statement for the year then ended, and a summary of significant accounting policies and explanatory notes.

In our opinion, the summary financial statements are consistent, in all material respects, with the audited financial statements and the books and records of the Branch.

For a better understanding of the financial position of the Branch and its operating results and of the scope of our audit, the attached summary financial statements should be read in conjunction with the audited financial statements and the independent auditor’s report thereon.

Li Ching Lap Bernard
Certified Public Accountant
PricewaterhouseCoopers

Macau, 25 April 2022

Cash flow statement

for the year ended 31 December 2021

(Expressed in thousands of Macau Patacas)

	<i>Amount</i>
Cash flows from operating activities	
Profit before income tax	153,721
Depreciation	6,116
Loan impairment charge	8,470
Interest income	(242,847)
Interest expense	25,311
Interest received	244,546
Interest paid	(28,366)
Decrease in minimum deposits with AMCM	5,380
Increase in gross loans and advances to customers	(625,442)
Decrease in other assets	1,620
Increase in balances with banks with original maturity more than three months	(162,377)
Decrease in deposits from customers	(199,779)
Increase in deposits and balances from banks	476,291
Decrease in other liabilities	(9,669)
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Cash outflow from operating activities before taxation	(347,025)
Macau complementary tax paid	(17,837)
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Cash outflow from operating activities	(364,862)
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Cash flows from investing activities	
Purchase of tangible fixed assets	(244)
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Cash outflow from investing activities	(244)
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Decrease in cash and cash equivalents	(365,106)
Cash and cash equivalents at 1 January	3,860,021
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Cash and cash equivalents at 31 December	3,494,915
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For the purpose of the 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	3,323,022
Deposits with AMCM in excess of minimum statutory requirement	162,447
Items in course of collection from other banks	10,823
Items in course of transmission to other banks	(1,377)
	<hr/>
	3,494,915
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Off-balance sheet exposures

(a) *Contingent liabilities and commitments*

(Expressed in thousands of Macau Patacas)

As at 31 December 2021	<i>Amount</i>
Bank guarantees	617,873
Commitments:	
Trade-related contingencies	567,684
Acceptance on trade bills	446,572
Undrawn formal standby facilities, credit lines and other commitments to lend	3,930,552
	4,944,808

(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 the end of the reporting period, 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	7,620
Later than one year and not later than five years	16,348
	23,968

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 31 December 2021.

(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	-	-	-	-	-
Interest rate contracts	-	-	-	-	-
Equities contracts	-	-	-	-	-
Commodities contracts	-	-	-	-	-
Others	-	-	-	-	-

Significant accounting policies

a) Revenue recognition

(i) Interest income and interest expense

Interest income and expense are recognised on an accruals basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Branch that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(ii) Fee and commission income and expense

Fee and commission income and expense that are not an integral part of effective interest of a financial instrument are generally recognised on the completion of a transaction. For a service that is provided over a period of time, fee and commission income and expense are recognised over the period during which the related service is provided or credit risk is undertaken.

b) Loans and advances to customers

Loans and advances to customers include loans and advances originated or acquired by the Branch, which are not intended to be sold in the short term and have not been classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when they are repaid, sold or written off, with substantially all the risks and reward of transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment allowances.

c) Provision for bad and doubtful debts

Provisions for bad and doubtful debts are made in reference to the provisioning guidelines pursuant to AMCM Notice No.18/93 ("AMCM's Provisioning Guidelines"). The Branch assesses losses for impaired loans and advances when there is objective evidence that impairment of a loan or portfolio of loans has occurred or portfolio of loans. The Branch assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired and made individual assessment to arrive at specific provision to such loan. For loans where specific provisions are not individually provided, general provisions are calculated on a collective basis to cover losses which have been incurred but not yet been identified, and such estimation is made reference to the AMCM's Provisioning Guidelines.

d) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives. Leasehold improvement is depreciated over 5 years or unexpired terms of the leases, whichever is shorter, whereas the rest is depreciated between 3 to 10 years.

Subsequent expenditure relating to tangible fixed assets that has already been recognised is added to the carrying amount of the asset only when it is probable that the future economic benefit associated with the item can be measured reliably. Other subsequent expenditure is recognised as maintenance expense in the income statement during the financial year in which it is incurred.

Tangible fixed assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable. Upon disposal, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

Significant accounting policies (continued)

e) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. The balance comprises cash, balances with banks, treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition and items in the course of collection from or in transmission to other banks.

f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognised as an expense in the period the termination takes place.

g) Foreign currency treatment

(i) Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the Branch operates. The financial statements are presented in Macau Official Patacas ("MOP"), which is the functional currency of the Branch.

(ii) Foreign currency transactions and balances

Transactions in foreign currencies are measured using exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into MOP at the exchange rate at the end of the reporting period. Foreign exchange differences arising from monetary translations are recognised in the income statement; non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

h) Current and deferred taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Branch operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that has been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Significant accounting policies (continued)

i) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Branch of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Provision is made in respect of paid leave entitlement accumulated during the year, which can be carried forward into future periods for compensated absence or payment in lieu if the employee leaves employment.

The Branch provides defined contribution scheme to staff members in accordance with the relevant laws and regulations.

j) Provisions other than those on bad and doubtful debts

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from past events and a reliable estimate can be made as to the amount of the obligation. Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Branch; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

k) Financial guarantees

Financial guarantees are contracts that require the Branch to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of loans or debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

l) Related parties

For the purposes of these financial statements, parties are considered to be related to the Branch if the Branch has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Branch and the party are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities which are under the significant influence of related parties of the Branch and post employment benefit scheme. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Branch, the Head Office and its holding companies, directly or indirectly, including any directors (whether executive or otherwise) and Executive Committee members of the Head Office and its holding companies.

m) Changes in accounting policies

During the year, the Branch did not have any changes in accounting policies.

Material related-party transactions

(a) **Policy for related party transactions**

The Branch entered into transactions with its Head Office, a subsidiary of Head Office and other related companies in the ordinary course of its interbank activities including the acceptance and placement of interbank deposits, correspondent banking transactions and off-balance sheet transactions. The activities were priced at mutually agreed rates at the time of the transactions.

(b) **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 year, and the total contract sum of off-balance sheet transactions at the year-end are as follows:

(Expressed in thousands of Macau Patacas)

	Amount
Interest income from Head Office and a subsidiary of Head Office	3,518
Interest expenses to Head Office	(22,499)
Fee and commission paid to Head Office and a subsidiary of Head Office	(6,819)
Management fee paid to Head Office	(8,592)
Operating expenses paid to other related companies	(797)
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	(35,189)
Notional forward exchange rate contracts	-
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The balances with Head Office and a subsidiary of Head office at the year-end are as follows:

(i) Assets

(Expressed in thousands of Macau Patacas)

	Amount
Cash and balances with banks	
- Demand deposits	192,923
- Placement	1,256,978
Other assets	
- Interest receivables	429
- Derivative financial instruments	-

(ii) Liabilities

(Expressed in thousands of Macau Patacas)

	Amount
Deposits and balances from banks	
- Demand and placements from banks	15,406,022
Other liabilities	
- Interest payable	2,269
- Derivative financial instruments	-

Material related-party transactions (continued)

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

The remuneration of key management personnel, which is included in "staff cost", is as follows:

(Expressed in thousands of Macau Patacas)

	Amount
Executive officers	2,966

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

During the year, 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) ***Definition of past due or impaired loans***

Past due loans represent loans that have missed the most recent payment date with respect to either principal or interest.

Impaired loans represent there is any objective evidence that a loan is impaired or portfolio of loans has occurred. The criteria used by the Branch to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial restructuring;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in the forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- a significant downgrading in credit rating by an external rating agency

(b) ***Impairment allowance***

The Branch's credit risk is primarily attributable to customer advances and debt investments issued by banks. The Branch manages this risk as follows:

In respect of customer advances, individual credit evaluations are performed on all customers requiring credit. Normally, the Branch obtains collateral from customers.

Investments are normally in liquid securities issued by banks and quoted on a recognised stock exchange and with counterparties that have high credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance and adjustment of mark to market value if applicable.

Further quantitative disclosures in respect of the Branch's exposure to credit risk arising from customer advances and debt investments are set out in Credit Risk (d)-(i).

(c) ***Credit risk management policy***

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract, including settlement risk. It arises principally from lending, trade finance, retail banking, treasury and leasing activities. The Branch has dedicated standards, policies and procedures in place to control and monitor all such risks.

The Branch undertakes credit analysis and monitoring at several levels. Special attention is paid to problem loans. Loan impairment allowances are made promptly where necessary and in accordance with established guidelines. Management regularly performs assessment of the adequacy of the impairment allowances by conducting detailed review of the loan portfolio, comparing performance and delinquency statistics against historical trends and undertaking an assessment of current economic conditions. The Branch also makes reference to the impairment provisioning requirements set out by the AMCM Notice No. 18/93 in determining the impairment provision.

Credit risk (continued)

(d) 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 advances[#]</i>	<i>Specific provision</i>	<i>General provision</i>
Loans & commitments*									
– Macau	-	-	-	16,965,658	16,965,658	37,592	37,592	(36,217)	(140,229)
– Hong Kong	-	-	-	1,423,070	1,423,070	-	-	-	(14,759)
– Others	-	-	-	93,003	93,003	-	-	-	(1,000)
	-	-	-	18,481,731	18,481,731	37,592	37,592	(36,217)	(155,988)
Debt securities									
– Macau	-	-	-	-	-	-	-	-	-
– Hong Kong	-	-	-	-	-	-	-	-	-
– Others	-	-	-	-	-	-	-	-	-
Financial derivatives									
– Macau	-	-	-	-	-	-	-	-	-
– Hong Kong	-	-	-	-	-	-	-	-	-
– Others	-	-	-	-	-	-	-	-	-

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

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

Credit risk (continued)

(e) 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 [#]	Specific provision	General provision
Manufacturing	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-
Construction and public works	342,273	-	-	-	(3,679)
Trade (wholesale and retail)	5,168,284	37,592	37,592	(36,217)	(55,143)
Restaurants, hotels and related activities	-	-	-	-	-
Transport, warehouse and communications	-	-	-	-	-
Individuals for house purchases	3,294,621	-	-	-	(35,410)
Individuals for other purposes	155,035	-	-	-	(1,666)
Others	5,590,966	-	-	-	(60,090)
	<u>14,551,179</u>	<u>37,592</u>	<u>37,592</u>	<u>(36,217)</u>	<u>(155,988)</u>

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

(f) 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	7,955	3,582,219	397,050	1,052,695	1,615,933	7,703,122	-	14,358,974
Cash and balances with and loans and advances to banks	2,946,506	855,341	272,046	162,896	-	-	-	4,236,789
Certificates of deposits held	-	-	-	-	-	-	-	-
Securities issued by Macau SAR Government and/or AMCM	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-
Liabilities								
Deposits and balances of banks and financial institutions	2,423,432	3,548,213	425,611	9,008,766	-	-	-	15,406,022
Deposits from public sector entities	-	-	-	-	-	-	-	-
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Deposits from non-bank customers	1,296,776	377,183	35,644	15,703	-	-	-	1,725,306
Certificates of deposits issued	-	-	-	-	-	-	-	-
Other securities issued	-	-	-	-	-	-	-	-

Credit risk (continued)

(g) Overdue loans and advances to banks

There were no overdue loans and advances to banks as at 31 December 2021.

(h) Overdue loans and advances to non-banks customers

(Expressed in thousands of Macau Patacas)

	Gross loans and advances	% of total loans and advances to non-bank customers	Collateral value	Specific Provision
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	-	-	-	-
- more than one year	37,592	0.26%	14,214	(36,217)
	<u>37,592</u>	<u>0.26%</u>	<u>14,214</u>	<u>(36,217)</u>

(i) Overdue other assets

There were no overdue other assets as at 31 December 2021.

Market risk

Market risk is the risk of market variables, such as foreign exchange rates, interest rates, equity and commodity prices that will move and result in profits and losses to the Branch. The Branch's market risk arises from customer-related business and from position taking.

Market risk is managed within risk limits approved by the Head Office. Risk limits are set by product and risk type with market liquidity being a principal factor in determining the level of limits set.

Interest rate risk

Interest rate risks comprise those originating from treasury activities as well as the structural interest rate exposures. Structural interest rate risk arises from the differing repricing characteristics of commercial banking assets and liabilities, including non-interest bearing liabilities. Structural interest rate risks were transferred to Head Office based on contractual or behavioural maturity.

Treasury manages interest rate risks within the limits approved by Head Office and under the monitoring of the Asset and Liability Management Committee ("ALCO") of Head Office.

The estimates and associated assumptions regarding to loan prepayments and behaviour of non-maturity deposits are based on historical experience and various other factors that are believed to be reasonable.

Interest rate risks are measured and monitored by Treasury on an ongoing basis. Besides, the Branch prepares, monitors and submits interest rate risk return to AMCM quarterly in accordance with the guideline based on circular no. 051/B/2008-DSB/AMCM.

Operational risk

The Head Office's established framework for operational risk management includes identification and vigorous assessment of operational risks inherent in processes, activities and products and adequate management information on analysis of operational loss events and data. The Operational Risk Management Committee in Head Office oversees the implementation of this framework at the Branch's level.

Operational risk is mitigated by well-established internal control system, adequate insurance cover, backup systems and contingency business resumption plans.

Foreign exchange risk

The Branch's foreign exchange exposures mainly comprise foreign exchange dealing by Global Markets of Head Office and currency exposures originated by its banking business. Both of them are transferred to Global Markets where they are centrally managed within foreign exchange position limits approved by the Head Office.

Structural foreign exchange limit of USD50 million arising from capital investment in Macau Branch were granted by ALCO. ALCO is thus fully responsible for the monitoring and management of such limits.

(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	50,527	(49,764)	-	-	-	763
Hong Kong dollars	14,233,976	(14,241,565)	-	-	-	(7,589)
US dollars	2,598,076	(2,598,056)	-	-	-	20
Other foreign currencies	50,295	(50,282)	-	-	-	13
	<u>16,932,874</u>	<u>(16,939,667)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,793)</u>

Liquidity risk

Liquidity risk is the risk that the Branch is unable to meet its payment obligations as they fall due. It is the Branch's policy to maintain a strong liquidity position by properly managing the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are comfortably met.

The Branch has established policies and procedures to monitor and control its liquidity position on a daily basis by adopting a cash flow management approach. The liquidity management process is monitored by the ALCO of Head Office and is reported to the Executive Committee and the Board of Directors of Head Office.

Besides, the Branch prepares and monitors daily liquidity ratio in order to comply with the liquidity rule based on notice no. 002/2013-AMCM.

The daily amount of cash in hand and in banks shall not be less than the sum of the following percentages calculated on the average of the basic liabilities classified by terms and assessed in the preceding week:

- (i) 3% of liabilities at sight;
- (ii) 2% of liabilities up to three months excluding liabilities at sight; and
- (iii) 1% of liabilities beyond three months.

The daily amount of the balances of the current accounts in MOP with the AMCM in the name of the Branch shall not be less than 70% of the minimum amount of cash in hand.

(Expressed in thousands of Macau Patacas)

During the annual reporting period of 2021:	
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	47,726
The arithmetic mean of the average weekly amount of cash in hand	197,636
The arithmetic mean of the specified liquid assets at the end of each month	1,920,018
The average ratio of specified liquid assets to total basic liabilities at the end of each month	107%
The arithmetic mean of one-month liquidity ratio in the last week of each month	116%
The arithmetic mean of three-month liquidity ratio in the last week of each month	139%

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 SFO recorded that, as at 31 December 2021, 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	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 31 December 2021, 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 22 February 2022, the members of the board of Directors of Hang Seng Bank Limited are set out below.

Independent Non-executive Chairman

Irene LEE Yun Lien

Executive Director

Diana Ferreira CESAR (*Chief Executive*)

Non-executive Directors

Kathleen GAN Chieh Huey

David LIAO Yi Chien

Vincent LO Hong Sui

Kenneth NG Sing Yip

Independent Non-executive Directors

John CHAN Cho Chak

CHIANG Lai Yuen

Cordelia CHUNG

Clement KWOK King Man

WANG Xiao Bin

Michael WU Wei Kuo

Consolidated capital ratios

Hang Seng Bank Limited

The Hong Kong Monetary Authority (“HKMA”) supervises the Group on a consolidated and solo-consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Certain non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

The Group uses the advanced internal ratings-based approach (“IRB”) to calculate its credit risk for the majority of its non-securitisation exposures. For counterparty credit risk, the Group replaces the current exposure method with standardized (counterparty credit risk) approach to calculate its default risk exposures starting from 30 June 2021. 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.

During the year, the Group has complied with all of the externally imposed capital requirements by the HKMA.

Consolidated capital ratios (continued)

Capital structure

(Figures in HK\$ million)

Common Equity Tier 1 ('CET1') Capital

	2021
Shareholders' equity	144,651
- Shareholders' equity per Consolidated Balance Sheet	184,332
- Additional Tier 1 ('AT1') perpetual capital instruments	(11,744)
- Unconsolidated subsidiaries	(27,937)
Non-controlling interests	-
- Non-controlling interests per Consolidated Balance Sheet	84
- Non-controlling interests in unconsolidated subsidiaries	(84)
Regulatory deductions to CET1 capital	(28,052)
- Cash flow hedging reserve	2
- Changes in own credit risk on fair valued liabilities	(6)
- Property revaluation reserves ¹	(24,617)
- Regulatory reserve	(441)
- Intangible assets	(2,359)
- Deferred tax assets net of deferred tax liabilities	(90)
- Valuation adjustments	(126)
- Excess of total expected loss amount over total eligible provisions under the IRB	(415)

Total CET1 Capital

116,599

AT1 Capital

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

Total AT1 Capital

11,744

Total Tier 1 ('T1') Capital

128,343

Tier 2 ('T2') Capital

Total T2 capital before regulatory deductions	11,460
- Property revaluation reserves ¹	11,078
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	382

Regulatory deductions to T2 capital

- Significant capital investments in unconsolidated financial sector entities	(1,045)
	(1,045)

Total T2 Capital

10,415

Total Capital

138,758

¹ 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)

	<u>2021</u>
Risk-weighted assets	734,128
Capital ratios	
CET1 capital ratio	15.9%
Tier 1 capital ratio	17.5%
Total capital ratio	18.9%

Consolidated assets, liabilities and profits positions

Hang Seng Bank Limited

(Figures in HK\$ million)

	<u>2021</u>
Total assets	1,820,185
Total liabilities	1,635,769
Total loans and advances	997,397
Total customer deposits including current, savings and other deposit accounts and certificates of deposit and other debt securities in issue	1,338,800
Pre-tax profit	16,385