



恒生銀行
HANG SENG BANK

Banking Disclosure Statement

30 June 2017

(Unaudited)

**These disclosures are prepared under
the Banking (Disclosure) Rules**

BANKING DISCLOSURE STATEMENT *(unaudited)*

Contents

Page

Introduction	
Purpose	4
Basis of preparation	4
The banking disclosure statement	4
Capital and other disclosures	
Basis of consolidation	5
Balance sheet reconciliation	6
Regulatory capital disclosures	8
Capital instruments	12
Capital ratios and buffer requirements	13
Countercyclical capital buffer ratio	13
Leverage ratio	14
Loans and advances to customers	16
Mainland activities	20
International claims	20
Off-balance sheet exposures other than derivative transactions	21
Foreign exchange exposure	22
Liquidity information	23
RWAs	
Overview of the minimum capital requirements and RWAs	25
Credit risk for non-securitisation exposures	26
Counterparty credit risk	33
Market risk	38
Other information	
Abbreviations	40

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Tables

Ref	Title	Page
Capital and other disclosures		
1	List of subsidiaries outside the regulatory scope of consolidation	5
2	Reconciliation of balance sheets – accounting to regulatory scope of consolidation	6
3	Detailed reconciliation of balance sheets to transition disclosures template	7
4	Transition disclosures template	8
5	Capital instruments	12
6	Capital ratios	13
7	Capital buffers	13
8	Geographical breakdown of RWA in relation to private sector credit exposures	13
9	Leverage ratio	14
10	Leverage ratio common disclosure template	14
11	Summary comparison table	15
12	Segmental analysis of loans and advances to customers by geographical area	16
13	Gross loans and advances to customers by industry sector	17
14	Analysis of gross loans and advances to customers by categories based on internal classification used by the Group	18
15	Overdue loans and advances to customers	18
16	Rescheduled loans and advances to customers	19
17	Mainland activities exposures	20
18	International claims	20
19	Off-balance sheet exposures other than derivative transactions	21
20	Foreign exchange exposure	22
21	Average liquidity coverage ratio	23
22	Total weighted amount of high quality liquid assets	23
23	Liquidity coverage ratio	24
RWAs		
OV1	Overview of RWA	25
Credit risk for non-securitisation exposures		
CR1	Credit quality of exposures	26
CR2	Changes in defaulted loans and debt securities	26
CR3	Overview of recognised credit risk mitigation	26
CR4	Credit risk exposures and effects of recognised credit risk mitigation – for STC approach	27
CR5	Credit risk exposures by asset classes and by risk weights – for STC approach	28
CR6 (1)	Credit risk exposures by portfolio and PD ranges – for IRB approach (Wholesale)	29
CR6 (2)	Credit risk exposures by portfolio and PD ranges – for IRB approach (Retail)	30
CR6 (3)	Credit risk exposures by portfolio and PD ranges – for IRB approach (Total)	30
CR7	Effects on RWA of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach	31
CR8	RWA flow statement of credit risk exposures under IRB approach	31
CR10 (1)	Specialised Lending under supervisory slotting criteria approach – other than HVCRE	32
CR10 (2)	Equity exposures under the simple risk-weight method	32
Counterparty credit risk		
CCR1	Analysis of counterparty default risk exposures (other than those to CCPs) by approaches	33
CCR2	CVA capital charge	33
CCR3	Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach	34
CCR4	Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach	35
CCR5	Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)	36
CCR8	Exposures to CCPs	37
Market risk		
MR1	Market risk under STM approach	38
MR2	RWA flow statement of market risk exposures under IMM approach	38
MR3	IMM approach values for market risk exposures	39
MR4	Comparison of VaR estimates with gains or losses	39

BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

Introduction

Purpose

The information contained in this document is for Hang Seng Bank Limited ("the Bank") and its subsidiaries (together "the Group") to comply with the Banking (Disclosure) Rules ("BDR") made under section 60A of the Banking Ordinance.

While the banking disclosure statement is not required to be externally audited, the document has been verified internally in accordance with the Group's policies on disclosure and its financial reporting and governance processes.

Basis of preparation

The approaches used in calculating the Group's regulatory capital or capital charge are in accordance with the Banking (Capital) Rules ("BCR"). 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.

Except where indicated otherwise, the financial information contained in this banking disclosure statement has been prepared on a consolidated basis. The basis of consolidation for regulatory purposes is different from that for accounting purposes. Information regarding subsidiaries that are not included in the consolidation for regulatory purposes is set out in the 'Basis of consolidation' section in this document.

The accounting policies applied in preparing this banking disclosure statement are the same as those applied in preparing the condensed consolidated financial statements for the period ended 30 June 2017, as set out in note 2 on the condensed consolidated financial statements in the 2017 Interim Report.

The banking disclosure statement

The Hong Kong Monetary Authority ("HKMA") has implemented the Basel Committee on Banking Supervision ("BCBS") final standards on revised Pillar 3 disclosures issued in January 2015. These disclosures are supplemented by specific additional requirements of the HKMA set out in the Banking (Disclosure) (Amendment) Rules 2016 ("BDAR"). The banking disclosure statement includes the information required under the BDR.

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Capital and other disclosures

Basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), as described in note 2 on the condensed consolidated financial statements in the 2017 Interim Report.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the BCR.

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 institutions under the BCR and the Banking Ordinance. The capital invested by the Group in these subsidiaries is deducted from the capital base subject to certain thresholds, as determined in accordance with Part 3 of the BCR.

A list of these subsidiaries is shown below:

Table 1: List of subsidiaries outside the regulatory scope of consolidation

	Principal activities	As at 30 Jun 2017	
		Total assets*	Total equity*
		HK\$m	HK\$m
Hang Seng Futures Ltd	Futures brokerages	102	102
Hang Seng Investment Management Ltd	Fund management	1,450	1,397
Hang Seng Investment Services Ltd	Provision of investment commentaries	9	9
Hang Seng Securities Ltd	Stockbroking	3,891	1,441
Hang Seng Insurance Co. Ltd and its subsidiaries	Retirement benefits and life assurance	126,645	10,016
Hang Seng Qianhai Fund Management Co. Ltd	Asset management	197	190

* Prepared in accordance with HKFRS

For insurance entities, the figures shown above exclude deferred acquisition cost assets as these are derecognised for consolidation purpose due to the recognition of the present value of in-force long-term insurance business ("PVIF") on long-term insurance contracts and investment contracts with discretionary participation features at group level. The PVIF asset of HK\$14,406m and the related deferred tax liability, however, are recognised at the consolidated group level only, and are therefore also not included in the asset or equity positions for the standalone entities shown above.

As at 30 June 2017, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

The Group operates subsidiaries in different territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

The Group maintains a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. As at 30 June 2017, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$5,479m.

There are no relevant capital shortfalls in any of the Group's subsidiaries which are not included in its consolidation group for regulatory purposes as at 30 June 2017.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Balance sheet reconciliation

The following tables together provide a reconciliation of the Group's condensed consolidated statement of financial position, as published in the 2017 Interim Report, to the transition disclosures template in Table 4 of this document.

The following table sets out the Group's condensed consolidated statement of financial position based on the accounting scope of consolidation and the corresponding balances based on the regulatory scope of consolidation.

Table 2: Reconciliation of balance sheets – accounting to regulatory scope of consolidation

	As at 30 Jun 2017	
	Balance sheet as in condensed consolidated financial statements	Under regulatory scope of consolidation
	HK\$m	HK\$m
Assets		
Cash and sight balances at central banks	15,872	15,872
Placings with and advances to banks	101,685	97,781
Trading assets	45,100	45,100
Financial assets designated at fair value	9,914	-
Derivative financial instruments	7,834	7,981
Loans and advances to customers	743,179	747,270
Financial investments	394,671	298,296
Investment in subsidiaries	-	7,104
Subordinated loans to subsidiaries	-	915
Interest in associates	2,094	-
Investment properties	10,034	7,158
Premises, plant and equipment	27,543	27,535
Intangible assets	15,176	437
Other assets	28,239	17,980
Total assets	1,401,341	1,273,429
Liabilities		
Current, savings and other deposit accounts	1,012,827	1,012,515
Repurchase agreements – non-trading	6,770	6,770
Deposits from banks	4,127	4,127
Trading liabilities	78,380	78,380
Financial liabilities designated at fair value	4,039	3,504
Derivative financial instruments	8,641	8,906
Certificates of deposit and other debt securities in issue	1,151	1,151
Other liabilities	18,606	23,771
Liabilities under insurance contracts	112,472	-
Current tax liabilities	1,392	1,345
Deferred tax liabilities	5,697	3,471
Subordinated liabilities	2,342	2,342
Total liabilities	1,256,444	1,146,282
Equity		
Share capital	9,658	9,658
Retained profits	107,787	90,132
Other equity instruments	6,981	6,981
Other reserves	20,414	20,376
Total shareholders' equity	144,840	127,147
Non-controlling interests	57	-
Total equity	144,897	127,147
Total equity and liabilities	1,401,341	1,273,429

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

The following table expands the balance sheet under the regulatory scope of consolidation to show separately the capital components that are reported in the transition disclosures template in Table 4. The capital components in this table contain a reference that shows how these amounts are included in the transition disclosures template in Table 4.

Table 3: Detailed reconciliation of balance sheets to transition disclosures template

	As at 30 Jun 2017		Cross-referenced to capital component definition
	Balance sheet as in condensed consolidated financial statements	Under regulatory scope of consolidation	
	HK\$m	HK\$m	
Assets			
Cash and sight balances at central banks	15,872	15,872	
Placings with and advances to banks	101,685	97,781	
Trading assets	45,100	45,100	
<i>of which: Valuation adjustments</i>		15	(1)
Financial assets designated at fair value	9,914	-	
Derivative financial instruments	7,834	7,981	
<i>of which: Valuation adjustments</i>		40	(2)
Loans and advances to customers	743,179	747,270	
<i>of which: Impairment allowances eligible for inclusion in Tier 2 capital</i>		868	(3)
Financial investments	394,671	298,296	
<i>of which: Valuation adjustments</i>		207	(4)
Investment in subsidiaries		7,104	
Subordinated loans to subsidiaries		915	(5)
Interest in associates	2,094	-	
Investment properties	10,034	7,158	
Premises, plant and equipment	27,543	27,535	
Intangible assets	15,176	437	(6)
Other assets	28,239	17,980	
<i>of which: Deferred tax assets</i>		192	(7)
<i>Defined benefit pension fund net assets</i>		48	(8)
Total assets	1,401,341	1,273,429	
Liabilities			
Current, savings and other deposit accounts	1,012,827	1,012,515	
Repurchase agreements – non-trading	6,770	6,770	
Deposits from banks	4,127	4,127	
Trading liabilities	78,380	78,380	
<i>of which: Valuation adjustments</i>		9	(9)
Financial liabilities designated at fair value	4,039	3,504	
<i>of which: Gains and losses due to changes in own credit risk on fair valued liabilities</i>		2	(10)
Derivative financial instruments	8,641	8,906	
<i>of which: Valuation adjustments</i>		4	(11)
Certificates of deposit and other debt securities in issue	1,151	1,151	
Other liabilities	18,606	23,771	
Liabilities under insurance contracts	112,472	-	
Current tax liabilities	1,392	1,345	
Deferred tax liabilities	5,697	3,471	
<i>of which: Deferred tax liabilities related to intangible assets</i>		39	(12)
<i>Deferred tax liabilities related to defined benefit pension fund</i>		8	(13)
Subordinated liabilities	2,342	2,342	(14)
Total liabilities	1,256,444	1,146,282	
Equity			
Share capital	9,658	9,658	(15)
Retained profits	107,787	90,132	(16)
<i>of which: Revaluation gains of investment properties</i>		6,372	(17)
<i>Regulatory reserve for general banking risks</i>		5,479	(18)
<i>Regulatory reserve eligible for inclusion in Tier 2 capital</i>		2,495	(19)
Other equity instruments	6,981	6,981	(20)
Other reserves	20,414	20,376	(21)
<i>of which: Cash flow hedge reserve</i>		(2)	(22)
<i>Revaluation reserve of properties</i>		17,612	(23)
Total shareholders' equity	144,840	127,147	
Non-controlling interests	57	-	
Total equity	144,897	127,147	
Total equity and liabilities	1,401,341	1,273,429	

BANKING DISCLOSURE STATEMENT (unaudited) (continued)
Regulatory capital disclosures

The following table sets out the detailed composition of the Group's regulatory capital at 30 June 2017 using the transition disclosures template as specified by the HKMA. The table also shows those items that are currently benefiting from the Basel III transitional arrangements, and are consequently subject to the pre-Basel III treatment, as set out in Schedule 4H to the BCR.

Table 4: Transition disclosures template

		As at 30 Jun 2017		Cross-referenced to condensed consolidated balance sheet
		Component of regulatory capital HK\$m	Amounts subject to pre-Basel III treatment* HK\$m	
CET1 capital: instruments and reserves				
1	Directly issued qualifying CET1 capital instruments plus any related share premium	9,658		(15)
2	Retained earnings	90,132		(16)
3	Disclosed reserves	20,376		(21)
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable		
	Public sector capital injections grandfathered until 1 January 2018	Not applicable		
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-		
6	CET1 capital before regulatory deductions	120,166		
CET1 capital: regulatory deductions				
7	Valuation adjustments	275		(1) + (2) + (4) + (9) + (11)
8	Goodwill (net of associated deferred tax liability)	-		
9	Other intangible assets (net of associated deferred tax liability)	398	-	(6) - (12)
10	Deferred tax assets net of deferred tax liabilities	192		(7)
11	Cash flow hedge reserve	(2)		(22)
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	-	
13	Gain-on-sale arising from securitisation transactions	-		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	2	-	(10)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	40	-	(8) - (13)
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22	Amount exceeding the 15% threshold	Not applicable		
23	<i>of which: significant investments in the common stock of financial sector entities</i>	Not applicable		
24	<i>of which: mortgage servicing rights</i>	Not applicable		
25	<i>of which: deferred tax assets arising from temporary differences</i>	Not applicable		
26	National specific regulatory adjustments applied to CET1 capital	29,463		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	23,984		(17) + (23)
26b	Regulatory reserve for general banking risks	5,479		(18)
26c	Securitisation exposures specified in a notice given by the Monetary Authority	-		
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-		
26e	Capital shortfall of regulated non-bank subsidiaries	-	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-		
28	Total regulatory deductions to CET1 capital	30,368		
29	CET1 capital	89,798		

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 4: Transition disclosures template (continued)

		As at 30 Jun 2017		
		Component of regulatory capital	Amounts subject to pre-BaseI III treatment*	Cross-referenced to condensed consolidated balance sheet
		HK\$m	HK\$m	
AT1 capital: instruments				
30	Qualifying AT1 capital instruments plus any related share premium	6,981		
31	<i>of which: classified as equity under applicable accounting standards</i>	6,981		(20)
32	<i>of which: classified as liabilities under applicable accounting standards</i>	-		
33	Capital instruments subject to phase out arrangements from AT1 capital	-		
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-		
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	-		
36	AT1 capital before regulatory deductions	6,981		
AT1 capital: regulatory deductions				
37	Investments in own AT1 capital instruments	-	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-	
41	National specific regulatory adjustments applied to AT1 capital	-		
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	-		
i	<i>of which: Excess of total EL amount over total eligible provisions under the IRB approach</i>	-		
ii	<i>of which: Capital shortfall of regulated non-bank subsidiaries</i>	-		
iii	<i>of which: Investments in own CET1 capital instruments</i>	-		
iv	<i>of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities</i>	-		
v	<i>of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)</i>	-		
vi	<i>of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	-		
vii	<i>of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	-		
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-		
43	Total regulatory deductions to AT1 capital	-		
44	AT1 capital	6,981		
45	Tier 1 capital (Tier 1 = CET1 + AT1)	96,779		
Tier 2 capital: instruments and provisions				
46	Qualifying Tier 2 capital instruments plus any related share premium	2,342		(14)
47	Capital instruments subject to phase out arrangements from Tier 2 capital	-		
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-		
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	-		
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	3,363		(3) + (19)
51	Tier 2 capital before regulatory deductions	5,705		

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 4: Transition disclosures template (continued)

		As at 30 Jun 2017		
		Component of regulatory capital HK\$m	Amounts subject to pre-Basel III treatment* HK\$m	Cross-referenced to condensed consolidated balance sheet
Tier 2 capital: regulatory deductions				
52	Investments in own Tier 2 capital instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	915	-	(5)
56	National specific regulatory adjustments applied to Tier 2 capital	(10,793)		
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(10,793)		((17) + (23))*45%
56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	-		
i	<i>of which: Excess of total EL amount over total eligible provisions under the IRB approach</i>	-		
ii	<i>of which: Capital shortfall of regulated non-bank subsidiaries</i>	-		
iii	<i>of which: Investments in own CET1 capital instruments</i>	-		
iv	<i>of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities</i>	-		
v	<i>of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)</i>	-		
vi	<i>of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	-		
vii	<i>of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	-		
57	Total regulatory deductions to Tier 2 capital	(9,878)		
58	Tier 2 capital	15,583		
59	Total capital (Total capital = Tier 1 + Tier 2)	112,362		
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment	-		
i	<i>of which: Mortgage servicing rights</i>	-		
ii	<i>of which: Defined benefit pension fund net assets</i>	-		
iii	<i>of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments</i>	-		
iv	<i>of which: Capital investment in a connected company which is a commercial entity</i>	-		
v	<i>of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	-		
vi	<i>of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	-		
60	Total risk weighted assets	555,759		
Capital ratios (as a percentage of risk weighted assets)				
61	CET1 capital ratio	16.16%		
62	Tier 1 capital ratio	17.41%		
63	Total capital ratio	20.22%		
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	7.568%		
65	<i>of which: capital conservation buffer requirement</i>	1.250%		
66	<i>of which: bank specific countercyclical buffer requirement</i>	1.068%		
67	<i>of which: G-SIB or D-SIB buffer requirement</i>	0.750%		
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	11.41%		

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 4: Transition disclosures template (continued)

		<u>As at 30 Jun 2017</u>		Cross-referenced to condensed consolidated balance sheet
		Component of regulatory capital	Amounts subject to pre-Base I treatment*	
		HK\$m	HK\$m	
National minima (if different from Basel 3 minimum)				
69	National CET1 minimum ratio	Not applicable		
70	National Tier 1 minimum ratio	Not applicable		
71	National Total capital minimum ratio	Not applicable		
Amounts below the thresholds for deduction (before risk weighting)				
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	3,861		
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	7,701		
74	Mortgage servicing rights (net of related tax liability)	Not applicable		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable		
Applicable caps on the inclusion of provisions in Tier 2 capital				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardised (credit risk) approach (prior to application of cap)	732		
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	730		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	2,633		
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	2,694		
Capital instruments subject to phase-out arrangements				
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable		
82	Current cap on AT1 capital instruments subject to phase out arrangements	-		
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	-		
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	-		

* This refers to the position under the Banking (Capital) Rules in force on 31 December 2012.

Notes to the template:

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

		<u>As at 30 Jun 2017</u>	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
10	Deferred tax assets net of deferred tax liabilities	192	68

Explanation

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.

Remarks:

The amount of the 10% /15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)
Capital instruments

The following is a summary of the Group's common equity tier 1 ("CET1") capital, additional tier 1 ("AT1") capital and tier 2 capital instruments.

Table 5: Capital instruments

As at 30 June 2017

	1) Ordinary shares	2) Perpetual subordinated loan (USD 900 million)	3) Subordinated loan due 2022 (USD 300 million)
1	Issuer	Hang Seng Bank Limited	Hang Seng Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	HK0011000095	N/A
3	Governing law(s) of the instrument	Hong Kong law	Hong Kong law
	<i>Regulatory treatment</i>		
4	Transitional Basel III rules#	N/A	N/A
5	Post-transitional Basel III rules+	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo*/group/group & solo	Group and Solo	Group and Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Perpetual debt instrument
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD 9,658 million	HKD 6,981 million
9	Par value of instrument	N/A	USD 900 million
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	Various	22-Dec-2014
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	22 December 2019 at par value
16	Subsequent call dates, if applicable	N/A	Callable on any interest payment date after first call date
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	N/A	Floating
18	Coupon rate and any related index	N/A	12-month USD LIBOR + 3.84%
19	Existence of a dividend stopper	N/A	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	Yes
31	If write-down, write-down trigger(s)	N/A	Non-Viability Event. Hong Kong Monetary Authority – Contractual
32	If write-down, full or partial	N/A	Full
33	If write-down, permanent or temporary	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Represents the most subordinated claim in liquidation	Subordinated to the claims of all Senior Creditors (including any holders of Tier 2 Instruments)
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

Terms and conditions

[Terms and conditions - Ordinary shares](#)

[Terms and conditions – Perpetual subordinated loan](#)

[Terms and conditions - Subordinated loan due 2022](#)

Footnote:

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

* Include solo-consolidated

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Capital ratios and buffer requirements

The following tables show the capital ratios, risk-weighted assets ("RWAs") after the applicable scaling factor and capital buffers as contained in the "Capital Adequacy Ratio" return required to be submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the BCR.

Table 6: Capital ratios

		30 Jun 2017
	<i>Footnote</i>	%
CET1 capital ratio	1	16.2
Tier 1 capital ratio	2	17.4
Total capital ratio	3	20.2
		HK\$m
CET1 capital		89,798
Tier 1 capital		96,779
Total capital		112,362
Total RWAs		555,759

1 CET1 capital ratio is equal to CET1 capital divided by total RWAs

2 Tier 1 capital ratio is equal to Tier 1 capital divided by total RWAs

3 Total capital ratio is equal to total capital divided by total RWAs

Table 7: Capital buffers

	30 Jun 2017
	%
Capital conservation buffer ratio	1.250
Countercyclical capital buffer ratio	1.068
Higher loss absorbency ratio	0.750
Total	3.068

Countercyclical capital buffer ratio

Countercyclical capital buffer ("CCyB") is calculated as the weighted average of the applicable CCyB ratios in effect in the jurisdictions in which banks have a private sector credit exposure. The Group uses booking country as the basis of geographical allocation for credit risk and risk country for market risk, which is defined by considering the country of incorporation, location of guarantor, headquarter domicile, distribution of revenue and booking country.

As at 30 June 2017, the applicable jurisdictional CCyB ("JCCyB") ratio in force in Hong Kong was 1.25%, as set by the HKMA. For the rest of the jurisdictions in which the Bank had private sector credit exposures, the applicable JCCyB ratios were either at 0% or there was not yet an announcement made by the corresponding regulators. The Hong Kong JCCyB ratio increased from 0.625% to 1.25% on 1 January 2017. The exposure amounts of private sector increased comparing with last year-end, mainly driven by the loan growth.

Table 8: Geographical breakdown of RWA in relation to private sector credit exposures

Jurisdiction	As at 30 June 2017			
	Applicable JCCyB ratio in effect	Total RWA used in computation of		CCyB amount of AI
		CCyB ratio of Authorised Institution ("AI")	CCyB ratio of AI	
	%	HK\$m	%	HK\$m
1 Hong Kong	1.250	388,106		
2 Mainland China	-	55,121		
3 Macau	-	9,037		
4 Singapore	-	1,814		
Total		454,078	1.068	4,851

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Leverage ratio

Table 9: Leverage ratio

	<i>Footnote</i>	30 Jun 2017
		%
Leverage ratio	4	7.3
Capital and leverage ratio exposure measure		HK\$m
Tier 1 capital		96,779
Total exposure measure		1,320,426

4 Leverage ratio is equal to Tier 1 capital divided by total exposure measure

Leverage ratio decreased comparing with last year-end, reflecting the net effect of an increase in capital base and an increase in exposure mainly driven by loan growth.

Table 10: Leverage ratio common disclosure template

	Leverage Ratio Framework
	30 Jun 2017
	HK\$m
On-balance sheet exposures	
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,259,115
2 Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(30,354)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,228,761
Derivative exposures	
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	2,296
5 Add-on amounts for PFE associated with all derivatives transactions	11,380
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7 Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-
8 Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-
9 Adjusted effective notional amount of written credit derivatives	-
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-
11 Total derivative exposures (sum of lines 4 to 10)	13,676
Securities financing transaction exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	7,323
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-
14 CCR exposure for SFT assets	551
15 Agent transaction exposures	-
16 Total securities financing transaction exposures (sum of lines 12 to 15)	7,874
Other off-balance sheet exposures	
17 Off-balance sheet exposure at gross notional amount	419,068
18 Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(348,953)
19 Off-balance sheet items (sum of lines 17 and 18)	70,115
Capital and total exposures	
20 Tier 1 capital	96,779
21 Total exposures (sum of lines 3, 11, 16 and 19)	1,320,426
Leverage ratio	
22 Basel III leverage ratio	7.33%

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 11: Summary comparison table

	Leverage ratio framework
	30 Jun 2017
	HK\$m
1 Total consolidated assets as per published financial statements	1,401,341
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(127,912)
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4 Adjustments for derivative financial instruments	5,695
5 Adjustment for securities financing transactions (i.e. repos and similar secured lending)	551
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	70,115
7 Other adjustments	(29,364)
8 Leverage ratio exposure	1,320,426

Other adjustments mainly represent the regulatory deductions of property revaluation reserves and regulatory reserve to Tier 1 capital under the leverage ratio framework.

BANKING DISCLOSURE STATEMENT *(unaudited) (continued)***Loans and advances to customers**

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

Table 12: Segmental analysis of loans and advances to customers by geographical area

	Gross loans and advances	Individually impaired loans and advances	Overdue loans and advances	Individually assessed allowances	Collectively assessed allowances
As at 30 Jun 2017	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Hong Kong	630,275	1,939	1,656	614	715
Mainland China	87,950	918	239	509	229
Others	27,074	7	3	6	47
Total	745,299	2,864	1,898	1,129	991

Compared with last year-end, gross loans and advances to customers increased by HK\$44.4bn, or 6%, to HK\$745.3bn at 30 June 2017.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the HKMA is as follows:

Table 13: Gross loans and advances to customers by industry sector

As at 30 Jun 2017	Gross loans and advances HK\$m	% of gross advances covered by collateral %
Industrial, commercial and financial sectors		
- property development	57,788	41.5
- property investment	128,985	84.1
- financial concerns	6,574	56.8
- stockbrokers	50	60.0
- wholesale and retail trade	27,363	46.7
- manufacturing	24,359	40.4
- transport and transport equipment	13,255	56.0
- recreational activities	76	68.4
- information technology	5,211	7.8
- other	55,674	69.5
Individuals		
- loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	20,361	100.0
- loans and advances for the purchase of other residential properties	165,778	100.0
- credit card loans and advances	25,458	-
- other	24,222	51.7
Gross loans and advances for use in Hong Kong	555,154	72.8
Trade finance	43,230	22.9
Gross loans and advances for use outside Hong Kong	146,915	35.4
Gross loans and advances to customers	745,299	62.5

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 loans and advances to customers, only the amount of collateral up to the gross loans and advances is included.

Compared with last year-end, loans and advances for use in Hong Kong increased by HK\$39.6bn, or 8%, to HK\$555.2bn at 30 June 2017. Lending to industrial, commercial and financial sectors grew by 10%. Lending to property development and property investment sectors remained active, increasing by 11% and 8% respectively whilst lending to financial concern grew by 30%. The Bank's continued efforts to support local business saw lending to wholesale and retail trade and manufacturing sectors grew by 2% and 6% respectively. Lending to transport and transport equipment sector increased by 42% while information technology sector decreased by 21%. Lending to 'Other' sector grew by 20%, due mainly to the granting of certain new working capital financing facilities to large corporate customers.

Lending to individuals increased by 4%. We strengthened our mortgage sales capabilities in strategic areas to capture new business opportunities and grew our residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme mortgages lending by 3% and 14% respectively. Credit card advances fell by 6%, due mainly to seasonal factors. Other loans to individuals grew by 19%.

Trade finance lending maintained broadly the same level as last year-end.

Loans and advances for use outside Hong Kong rose by 3%, driven largely by lending on the Mainland. The Mainland loan portfolio grew by 10%, underpinned by the expansion of corporate and commercial lending, trade finance and mortgages. The overall credit quality remained stable.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Gross advances, overdue advances, impaired advances, individually assessed and collectively assessed loan impairment allowances, the amount of new impairment allowances charged to income statement, and the amount of impaired loans and advances written off during the period in respect of industry sectors which constitute not less than 10 per cent of gross loans and advances to customers are analysed as follows:

Table 14: Analysis of gross loans and advances to customers by categories based on internal classification used by the Group

	Gross advances	Overdue advances	Impaired advances	Individually assessed loan impairment allowances	Collectively assessed loan impairment allowances	New impairment allowances	Advances written off during the period
As at 30 Jun 2017	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Residential mortgages	189,675	82	159	(4)	(2)	-	-
Commercial, industrial and international trade	168,242	1,314	2,234	(1,116)	(628)	473	111
Commercial real estate	83,688	15	16	-	(3)	-	-
Other property-related lending	166,393	349	429	(4)	(14)	4	-

Compared with last year-end, the increase in individually assessed loan impairment allowances was due to downgrade of certain corporate customers.

Loans and advances to customers that are more than three months overdue and their expression as a percentage of gross loans and advances to customers are as follows:

Table 15: Overdue loans and advances to customers

As at 30 Jun 2017	HK\$m	%
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
- more than three months but not more than six months	126	0.02
- more than six months but not more than one year	114	0.01
- more than one year	1,658	0.22
Total	1,898	0.25
of which:		
- individually impaired allowances	(465)	
- covered portion of overdue loans and advances	1,200	
- uncovered portion of overdue loans and advances	698	
- current market value of collateral held against the covered portion of overdue loans and advances	1,880	

Collateral held with respect to overdue loans and advances is mainly residential properties, industrial properties, commercial properties and customer deposits. The current market value of residential properties, industrial properties, commercial properties and customer deposits were HK\$1,448m, HK\$29m, HK\$295m and HK\$53m respectively.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at period-end. Loans and advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at period-end. Loans and advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, or when the loans and advances have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Overdue loans and advances decreased by HK\$456m, or 19%, to HK\$1,898m compared with last year-end, due mainly to the combined effect of the downgrade of certain corporate and commercial customers, loan written off and rescheduled during the period. Overdue loans and advances as a percentage of gross loans and advances to customers was down by 8 basis points to 0.25% at 30 June 2017.

The amount of repossessed assets as at 30 June 2017 was HK\$31m.

BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

Rescheduled loans and advances to customers and their expression as a percentage of gross loans and advances to customers are as follows:

Table 16: Rescheduled loans and advances to customers

As at 30 Jun 2017	HK\$m	%
Rescheduled loans and advances to customers	789	0.11

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status.

Rescheduled loans and advances to customers are stated net of any advances which have subsequently become overdue for more than three months and which are included in "Overdue loans and advances to customers".

Compared with last year-end, the increase in rescheduled loans and advances to customers was due to loans and advances to certain customers have been rescheduled during the period.

Impairment and rescheduled amounts relating to placings with and advances to banks and other assets

There were no impaired or rescheduled placings with and advances to banks, nor overdue or rescheduled other assets as at 30 June 2017.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Mainland activities

The analysis of mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA Return of Mainland Activities - (MA(BS)20). This includes the mainland activities exposures extended by the Bank's Hong Kong offices and its wholly owned banking subsidiary in mainland China.

Table 17: Mainland activities exposures

	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
As at 30 Jun 2017	HK\$m	HK\$m	HK\$m
Type of Counterparties			
1 Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	49,024	4,221	53,245
2 Local governments, local government-owned entities and their subsidiaries and JVs	14,305	1,735	16,040
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	60,130	22,372	82,502
4 Other entities of central government not reported in item 1 above	4,902	872	5,774
5 Other entities of local governments not reported in item 2 above	3,560	222	3,782
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	41,501	4,360	45,861
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	16,897	1,161	18,058
Total	190,319	34,943	225,262
Total assets after provision	1,281,621		
On-balance sheet exposures as percentage of total assets	14.85%		

On-balance sheet exposures as percentage of total assets remained stable as compared with 2016 year-end.

International claims

The Group's country risk exposures in the table below are prepared in accordance with the HKMA Return of International Banking Statistics - (MA(BS)21) guidelines. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the group's total international claims.

Table 18: International claims

	Banks	Official Sector	Non Bank Financial Institution	Non-Financial Private Sector	Others	Total
As at 30 Jun 2017	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Developed countries	63,396	42,742	13,581	46,587	-	166,306
Offshore centres	10,945	6,940	4,627	99,192	-	121,704
of which : Hong Kong SAR	2,952	1,347	3,548	81,651	-	89,498
Developing Asia and Pacific	73,913	8,132	7,172	57,993	-	147,210
of which : China	47,423	8,075	5,876	51,104	-	112,478

At 30 June 2017, only claims on Hong Kong SAR and China were the individual countries and territories or areas, which were not less than 10% of the group's total international claims.

BANKING DISCLOSURE STATEMENT *(unaudited) (continued)***Off-balance sheet exposures other than derivative transactions**

The following table gives the nominal contract amounts and RWAs of contingent liabilities and commitments. The information is consistent with that in the "Capital Adequacy Ratio" return required to be submitted to the HKMA by the Group. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 3C(1) of the BCR.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in "Other assets" and "Other Liabilities" in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". For the purpose of the BCR, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Table 19: Off-balance sheet exposures other than derivative transactions

	30 Jun 2017
	HK\$m
Contract amounts	
Direct credit substitutes	7,717
Transaction-related contingencies	4,816
Trade-related contingencies	12,481
Forward forward deposits placed	982
Commitments that are unconditionally cancellable without prior notice	345,327
Commitments which have an original maturity of not more than one year	6,311
Commitments which have an original maturity of more than one year	41,436
Total	419,070
RWAs	47,237

BANKING DISCLOSURE STATEMENT (unaudited) (continued)**Foreign exchange exposure**

The Group's foreign exchange exposures mainly comprise foreign exchange dealing by Global Markets and currency exposures originated by its banking business. The latter are transferred to Global Markets where they are centrally managed within foreign exchange position limits approved by the Group's Chief Risk Officer, noting the support of Risk Management Meeting ("RMM"). The net options position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts.

The Group's gross structural foreign exchange exposure is represented by the net asset value of the Group's foreign currency investments in subsidiaries, branches and associates, and the fair value of the Group's long-term foreign currency equity investments. The Group's structural foreign currency exposures are managed by the Group's ALCO with the primary objective of ensuring, where practical, that the Group's and the Bank's capital ratios are protected from the effect of changes in exchange rates.

At 30 June 2017, the US dollar ("USD"), was the currency in which the Group had non-structural foreign currency positions that was not less than 10% of the total net position in all foreign currencies. The Group also had a Chinese renminbi ("RMB") structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

The tables below summarise the net structural and non-structural foreign currency positions of the Group.

Table 20: Foreign exchange exposure

	USD HK\$m	RMB HK\$m	Other foreign currencies HK\$m	Total foreign currencies HK\$m
As at 30 Jun 2017				
Non-structural position				
Spot assets	165,969	121,504	128,327	415,800
Spot liabilities	(159,012)	(112,374)	(67,558)	(338,944)
Forward purchases	408,651	226,295	32,538	667,484
Forward sales	(412,951)	(235,266)	(93,327)	(741,544)
Net options position	248	(252)	(27)	(31)
Net long/(short) non-structural position	2,905	(93)	(47)	2,765
Structural position	-	14,700	1,053	15,753

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Liquidity information

The Banking (Liquidity) Rules were introduced by the HKMA in 2014 and became effective from 1 January 2015. Under rule 11(1), the Group is required to calculate its Liquidity Coverage Ratio ("LCR") on a consolidated basis. During 2017 the Group is required to maintain a LCR of not less than 80%, increasing in steps of 10% each year to not less than 100% by January 2019. The NSFR is expected to be implemented in Hong Kong from 1 January 2018.

The average LCRs for the period are as follows:

Table 21 : Average liquidity coverage ratio

	Quarter ended	
	30 Jun 2017	31 Mar 2017
	%	%
Average LCR	256.7	267.7

The liquidity position of the Group remained strong for the first half of 2017. The average LCR were 256.7% and 267.7% for the quarters ended 30 June and 31 March 2017 respectively, compared with 257.1% for both the quarters ended 30 June and 31 March 2016.

The composition of the Group's high quality liquid assets ("HQLA") as defined under Schedule 2 of the Banking (Liquidity) Rules is shown as below. The majority of the HQLA held by the Group are Level 1 assets which consist mainly of government debt securities.

Table 22: Total weighted amount of high quality liquid assets

	Weighted amount (Average value) at quarter ended	
	30 Jun 2017	31 Mar 2017
	HK\$m	HK\$m
Level 1 assets	283,481	295,635
Level 2A assets	14,980	13,669
Level 2B assets	528	766
Total weighted amount of HQLA	298,989	310,070

Sources of funding

Customer deposits in the form of current accounts and savings deposits payable on demand or at short notice form a significant part of our stable funding. We also access wholesale funding markets by issuing senior secured and unsecured debt securities and borrowing from the secured repo markets against high quality collateral, in order to supplement our customer deposits, to align asset and liability maturities and currencies and to maintain a presence in local wholesale markets.

Currency mismatch

The Group allows currency mismatches to provide some flexibility in managing the balance sheet structure and to carry out foreign exchange trading, on the basis that there is sufficient liquidity in the swap market to support currency conversion in periods of stress. The Group sets limits on LCR for all material currencies based on liquidity in the swap markets. These limits are approved and monitored by Asset and Liability Management Committee ("ALCO").

Additional contractual obligations

Most of the Group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are ISDA compliant CSA contracts), in the event of a three-notch downgrade in credit ratings, the additional collateral required to post is immaterial.

Information relating to the Group's approach to liquidity risk management can be found in the Risk Report of the Group's Annual Report and Accounts 2016.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

The following table sets out the required disclosure items under the Liquidity Coverage Ratio Standard Disclosure Template as specified by the HKMA. The number of data points used in calculating the average value of the LCR and related components set out in this Template for the quarters ending on 30 June 2017 & 31 March 2017: (71 and 73 data points respectively)

Table 23: Liquidity coverage ratio

	Quarter ended 30 Jun 2017 (71 data points)		Quarter ended 31 Mar 2017 (73 data points)	
	Unweighted amount (Average Value) HK\$m	Weighted amount (Average Value) HK\$m	Unweighted amount (Average Value) HK\$m	Weighted amount (Average Value) HK\$m
Basis of disclosure: consolidated				
A High quality liquid assets				
1 Total high quality liquid assets ("HQLA")		298,989		310,070
B Cash outflows				
2 Retail deposits and small business funding, of which:	739,585	59,845	729,516	59,439
3 <i>Stable retail deposits and stable small business funding</i>	201,619	6,048	196,896	6,177
4 <i>Less stable retail deposits and less stable small business funding</i>	537,966	53,797	532,620	53,262
5 <i>Retail term deposits and small business term funding</i>	-	-	-	-
6 Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	245,335	107,694	243,187	108,829
7 <i>Operational deposits</i>	54,826	13,061	54,436	13,512
8 <i>Unsecured wholesale funding (other than small business funding) not covered in Row 7</i>	190,436	94,560	188,751	95,317
9 <i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	73	73	-	-
10 Secured funding transactions (including securities swap transactions)		9		10
11 Additional requirements, of which:	60,149	11,652	48,077	10,653
12 <i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	6,126	6,125	6,217	6,217
13 <i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	502	502	554	554
14 <i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	53,521	5,025	41,306	3,882
15 Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	11,795	11,795	10,918	10,918
16 Other contingent funding obligations (whether contractual or non-contractual)	362,876	1,591	365,622	1,688
17 Total cash outflows		192,586		191,537
C Cash inflows				
18 Secured lending transactions (including securities swap transactions)	-	-	38	-
19 Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	118,325	65,799	113,153	63,703
20 Other cash inflows	16,790	9,881	18,868	11,451
21 Total cash inflows	135,115	75,680	132,059	75,154
D Liquidity coverage ratio (Adjusted value)				
22 Total HQLA		298,989		310,070
23 Total net cash outflows		116,906		116,383
24 LCR (%)		256.7%		267.7%

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

RWAs

Overview of the minimum capital requirements and RWAs

Using the standard template as specified by the HKMA, the following table provides an overview of the capital requirements in terms of detailed breakdown of RWAs for credit risk (before any applicable scaling factor of 1.06 following a clarification from the HKMA in July 2017), market risk and operational risk. Minimum capital requirement represents the amount of capital required to be held for that risk based on its RWAs after any applicable scaling factor multiplied by 8%. Comparatives have been restated to align with the current period presentation.

Table OV1: Overview of RWA

	Footnote	a	b	c
		RWA		Minimum capital requirements
		30 Jun 2017	31 Mar 2017	30 Jun 2017
		HK\$m	HK\$m	HK\$m
1	Credit risk for non-securitisation exposures	444,156	429,400	37,386
2	<i>of which: Standardised (credit risk) ("STC") approach</i>	57,978	50,755	4,638
2a	<i>of which: Basic ("BSC") approach</i>	-	-	-
3	<i>of which: Internal ratings-based ("IRB") approach</i>	386,178	378,645	32,748
4	Counterparty credit risk	4,609	5,324	381
5	<i>of which: Standardised ("SA-CCR") approach</i>	2,838	3,330	239
5a	<i>of which: Current exposure method ("CEM")</i>	-	-	-
6	<i>of which: Internal models (counterparty credit risk) ("IMM(CCR)") approach</i>	-	-	-
7	Equity exposures in banking book under the market-based approach	15,652	14,768	1,327
8	Collective investment scheme ("CIS") exposures – Look-through approach ("LTA")	-	-	-
9	CIS exposures – Mandate-based approach ("MBA")	-	-	-
10	CIS exposures – Fall-back approach ("FBA")	-	-	-
11	Settlement risk	-	-	-
12	Securitisation ("S") exposures in banking book	-	-	-
13	<i>of which: IRB(S) approach – ratings-based method</i>	-	-	-
14	<i>of which: IRB(S) approach – supervisory formula method</i>	-	-	-
15	<i>of which: STC(S) approach</i>	-	-	-
16	Market risk	7,588	7,081	607
17	<i>of which: Standardised (market risk) ("STM") approach</i>	18	7	1
18	<i>of which: Internal models ("IMM") approach</i>	7,570	7,074	606
19	Operational risk	52,284	51,597	4,183
20	<i>of which: Basic indicator ("BIA") approach</i>	-	-	-
21	<i>of which: Standardised (operational risk) ("STO") approach</i>	52,284	51,597	4,183
21a	<i>of which: Alternative standardised ("ASA") approach</i>	-	-	-
22	<i>of which: Advanced measurement ("AMA") approach</i>	N/A	N/A	N/A
23	Amounts below the thresholds for deduction (subject to 250% RW)	19,250	19,265	1,632
24	Capital floor adjustment	-	-	-
24a	Deduction to RWA	(13,193)	(12,766)	(1,055)
24b	<i>of which: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	(2)	-	-
24c	<i>of which: Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital</i>	(13,191)	(12,766)	(1,055)
25	Total	530,346	514,669	44,461

N/A: Not applicable in the case of Hong Kong

5 Prior to the implementation of SA-CCR, exposures corresponding to the counterparty credit risk reported here are calculated using current exposure method.

Total RWAs (before any applicable scaling factor) increased by HK\$15.7bn since last quarter. Credit risk RWA for non-securitisation exposures was the main contributor and the key driver for its increase of HK\$14.8bn was the changes in asset size (consisting of changes in book size and composition).

BANKING DISCLOSURE STATEMENT (unaudited) (continued)
Credit risk for non-securitisation exposures

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to credit risk for non-securitisation exposures and equity exposures under STC and IRB approaches.

Table CR1: Credit quality of exposures

		a	b	c	d
		Gross carrying amounts of		Allowances/ impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
As at 30 Jun 2017		HK\$m	HK\$m	HK\$m	HK\$m
1	Loans	3,136	852,337	2,120	853,353
2	Debt securities	-	294,445	-	294,445
3	Off-balance sheet exposures	-	419,070	-	419,070
4	Total	3,136	1,565,852	2,120	1,566,868

Table CR2: Changes in defaulted loans and debt securities

		a
		Amount
		HK\$m
1	Defaulted loans and debt securities at end of the previous reporting period (31 Dec 2016)	3,235
2	Loans and debt securities that have defaulted since the last reporting period	868
3	Returned to non-defaulted status	(120)
4	Amounts written off	(452)
5	Other changes	(395)
6	Defaulted loans and debt securities at end of the current reporting period (30 Jun 2017)	3,136

Table CR3: Overview of recognised credit risk mitigation

		a	b1	b	d	f
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
As at 30 Jun 2017		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1	Loans	311,840	541,513	390,673	116,609	-
2	Debt securities	287,263	7,182	-	6,590	-
3	Total	599,103	548,695	390,673	123,199	-
4	<i>of which: Defaulted</i>	<i>764</i>	<i>1,243</i>	<i>1,046</i>	<i>2</i>	<i>-</i>

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CR4: Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

	a	b	c	d	e	f
	Exposures pre-credit conversion factor ("CCF") and pre-credit risk mitigation ("CRM")		Exposures post-CCF and post-CRM		RWA and RWA density	
As at 30 Jun 2017	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%
Exposure classes						
1 Sovereign exposures	-	-	130	1	-	-
2 Public sector entity ("PSE") exposures	20,695	1,493	20,695	721	2,092	10
2a <i>of which: Domestic PSEs</i>	3,352	1,493	3,352	721	815	20
2b <i>of which: Foreign PSEs</i>	17,343	-	17,343	-	1,277	7
3 Multilateral development bank exposures	-	-	-	-	-	-
4 Bank exposures	31	-	31	-	7	20
5 Securities firm exposures	-	-	-	-	-	50
6 Corporate exposures	35,640	17,516	32,912	1,977	34,682	99
7 Collective investment scheme ("CIS") exposures	-	-	-	-	-	-
8 Cash items	-	-	-	-	-	-
9 Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10 Regulatory retail exposures	5,311	6,624	4,766	15	3,586	75
11 Residential mortgage loans	22,691	4,719	22,661	944	10,115	43
12 Other exposures which are not past due exposures	10,644	4,154	7,016	181	7,196	100
13 Past due exposures	202	-	202	-	300	149
14 Significant exposures to commercial entities	-	-	-	-	-	-
15 Total	95,214	34,506	88,413	3,839	57,978	63

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

	a	b	c	d	e	f	g	h	ha	i	j
	Total credit risk exposures amount (post CCF and post CRM)										
Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Exposure class											
1 Sovereign exposures	131	-	-	-	-	-	-	-	-	-	131
2 PSE exposures	10,958	-	10,458	-	-	-	-	-	-	-	21,416
2a of which: Domestic PSEs	-	-	4,073	-	-	-	-	-	-	-	4,073
2b of which: Foreign PSEs	10,958	-	6,385	-	-	-	-	-	-	-	17,343
3 Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4 Bank exposures	-	-	31	-	-	-	-	-	-	-	31
5 Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6 Corporate exposures	-	-	-	-	413	-	34,476	-	-	-	34,889
7 CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8 Cash items	-	-	-	-	-	-	-	-	-	-	-
9 Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10 Regulatory retail exposures	-	-	-	-	-	4,781	-	-	-	-	4,781
11 Residential mortgage loans	-	-	-	18,116	3,322	213	1,954	-	-	-	23,605
12 Other exposures which are not past due exposures	-	-	-	-	-	-	7,197	-	-	-	7,197
13 Past due exposures	2	-	-	-	-	-	-	200	-	-	202
14 Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15 Total	11,091	-	10,489	18,116	3,735	4,994	43,627	200	-	-	92,252

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CR6 (1): Credit risk exposures by portfolio and probability of default ("PD") ranges – for IRB approach (Wholesale)

	a	b	c	d	e	f	g	h	i	j	k	l
				Exposure at default ("EAD") post-CRM and post-CCF	Average PD	Number of obligors	Average loss given default ("LGD")	Average maturity	RWA	RWA density	Expected loss ("EL")	Provisions
As at 30 Jun 2017	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Sovereign												
0.00 to < 0.15	266,855	-	-	266,855	0.02	37	24.8	1.26	11,766	4	15	
0.15 to < 0.25	677	-	-	677	0.22	2	45.0	1.00	216	32	1	
0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
Sub-total	267,532	-	-	267,532	0.02	39	24.9	1.26	11,982	4	16	-
Bank												
0.00 to < 0.15	116,602	1,021	97.3	117,596	0.04	1,001	41.0	1.23	16,597	14	21	
0.15 to < 0.25	735	233	49.8	852	0.22	89	44.4	0.62	301	35	1	
0.25 to < 0.50	3,770	-	-	3,770	0.37	88	45.0	0.79	2,048	54	6	
0.50 to < 0.75	955	1	18.6	955	0.63	34	45.0	0.61	673	70	3	
0.75 to < 2.50	573	1	0.2	573	0.92	47	44.4	0.97	496	86	2	
2.50 to < 10.00	-	-	-	-	-	3	-	-	-	-	-	
10.00 to < 100.00	5	-	-	5	19.00	5	45.0	0.74	13	260	-	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
Sub-total	122,640	1,256	88.3	123,751	0.06	1,267	41.2	1.20	20,128	16	33	-
Corporate – small-and-medium sized corporates												
0.00 to < 0.15	1,804	907	26.6	2,045	0.11	105	21.5	4.06	343	17	-	
0.15 to < 0.25	1,578	830	27.8	1,808	0.22	100	27.0	3.60	529	29	1	
0.25 to < 0.50	7,032	1,507	35.1	7,561	0.37	143	28.3	2.61	2,407	32	8	
0.50 to < 0.75	9,894	1,082	26.9	10,185	0.63	201	37.9	2.33	5,217	51	24	
0.75 to < 2.50	15,585	3,868	27.3	16,639	1.48	565	28.7	2.56	8,983	54	70	
2.50 to < 10.00	1,404	418	29.8	1,528	3.74	74	30.7	1.90	1,068	70	17	
10.00 to < 100.00	29	-	55.0	29	15.59	2	39.8	2.89	41	141	2	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
Sub-total	37,326	8,612	28.7	39,795	1.02	1,190	30.6	2.61	18,588	47	122	710
Corporate – others												
0.00 to < 0.15	85,921	44,272	41.2	104,164	0.09	616	44.2	2.35	27,192	26	42	
0.15 to < 0.25	51,521	30,237	35.5	62,257	0.22	488	42.3	2.36	25,497	41	58	
0.25 to < 0.50	59,896	31,445	31.9	69,914	0.37	668	39.2	2.09	33,027	47	101	
0.50 to < 0.75	45,786	22,191	26.6	51,693	0.63	657	33.2	2.20	27,278	53	108	
0.75 to < 2.50	114,991	55,351	25.1	128,878	1.42	2,098	36.5	1.86	95,020	74	658	
2.50 to < 10.00	17,392	16,988	23.2	21,325	3.93	428	40.3	1.60	24,021	113	337	
10.00 to < 100.00	451	558	22.1	574	10.44	29	34.4	2.37	835	145	20	
100.00 (Default)	2,610	-	9.7	2,610	100.00	119	44.4	2.48	-	-	1,159	
Sub-total	378,568	201,042	31.3	441,415	1.39	5,103	39.4	2.12	232,870	53	2,483	5,685

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CR6 (2): Credit risk exposures by portfolio and PD ranges – for IRB approach (Retail)

	a	b	c	d	e	f	g	h	i	j	k	l
As at 30 Jun 2017	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Retail – qualifying revolving retail exposures ("QRRE")												
0.00 to < 0.15	8,885	123,879	39.8	58,216	0.07	1,605,374	104.7		2,652	5	42	
0.15 to < 0.25	1,651	9,806	44.0	5,961	0.22	162,689	104.1		724	12	14	
0.25 to < 0.50	4,246	16,113	32.5	9,490	0.39	195,790	100.4		1,743	18	37	
0.50 to < 0.75	1,777	3,518	46.8	3,421	0.60	58,077	101.6		896	26	21	
0.75 to < 2.50	6,039	9,977	31.6	9,188	1.46	110,920	99.3		4,559	50	133	
2.50 to < 10.00	3,990	2,509	60.7	5,514	4.76	60,035	99.6		6,357	115	261	
10.00 to < 100.00	1,560	398	120.9	2,041	29.52	22,404	99.3		4,086	200	581	
100.00 (Default)	67	-	-	67	100.00	854	93.5		-	-	63	
Sub-total	28,215	166,200	39.5	93,898	1.25	2,216,143	103.2		21,017	22	1,152	213
Retail – residential mortgage exposures												
0.00 to < 0.15	141,480	-	-	141,480	0.04	72,788	10.0		21,268	15	6	
0.15 to < 0.25	8,066	-	-	8,066	0.19	5,150	10.0		1,247	15	2	
0.25 to < 0.50	5,377	-	-	5,377	0.35	3,217	10.0		832	15	2	
0.50 to < 0.75	2,232	-	-	2,232	0.58	1,446	10.0		344	15	1	
0.75 to < 2.50	31,762	-	-	31,762	1.63	15,260	10.0		5,666	18	52	
2.50 to < 10.00	1,418	-	-	1,418	3.02	1,104	10.3		362	26	4	
10.00 to < 100.00	291	-	-	291	13.30	268	10.0		146	50	4	
100.00 (Default)	210	-	-	210	100.00	124	10.5		-	-	22	
Sub-total	190,836	-	-	190,836	0.48	99,357	10.0		29,865	16	93	-
Retail – small business retail exposures												
0.00 to < 0.15	2,808	-	-	2,808	0.07	1,027	4.4		22	1	-	
0.15 to < 0.25	439	-	-	439	0.17	129	15.1		24	5	-	
0.25 to < 0.50	77	-	-	77	0.43	15	23.8		12	16	-	
0.50 to < 0.75	369	-	-	369	0.58	141	0.8		2	1	-	
0.75 to < 2.50	482	-	-	482	1.23	205	5.5		29	6	-	
2.50 to < 10.00	520	-	-	520	5.30	174	7.7		60	12	2	
10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
Sub-total	4,695	-	-	4,695	0.82	1,691	5.9		149	3	2	-
Other retail exposures to individuals												
0.00 to < 0.15	2,850	1,951	10.2	3,049	0.07	27,815	12.1		80	3	-	
0.15 to < 0.25	1,284	1,947	13.3	1,543	0.20	23,838	14.3		89	6	-	
0.25 to < 0.50	869	1,070	15.2	1,032	0.43	13,505	48.8		327	32	2	
0.50 to < 0.75	2,352	8	21.1	2,354	0.54	16,439	71.5		1,261	54	9	
0.75 to < 2.50	3,086	983	26.5	3,347	1.57	28,504	55.0		2,231	67	31	
2.50 to < 10.00	3,002	166	26.6	3,046	4.81	26,003	65.6		2,939	96	98	
10.00 to < 100.00	634	16	38.3	640	15.91	7,336	71.8		895	140	74	
100.00 (Default)	19	-	-	19	100.00	439	174.6		-	-	33	
Sub-total	14,096	6,141	15.2	15,030	2.28	143,879	47.3		7,822	52	247	114

Table CR6 (3): Credit risk exposures by portfolio and PD ranges – for IRB approach (Total)

	a	b	c	d	e	f	g	h	i	j	k	l
As at 30 Jun 2017	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Total (all portfolios)	1,043,908	383,251	34.7	1,176,952	0.78	2,468,669	36.3	1.75*	342,421	29	4,148	6,722

*This refers to the total average maturity for wholesale portfolio only as maturity is not a parameter in the internal model approved by the HKMA on calculating risk-weight ("RW") on retail portfolio.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CR7: Effects on RWA of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach

	a	b
	Pre-credit derivatives	
	RWA	Actual RWA
As at 30 Jun 2017	HK\$m	HK\$m
1 Corporate – Specialised lending under supervisory slotting criteria approach (project finance)	-	-
2 Corporate – Specialised lending under supervisory slotting criteria approach (object finance)	-	-
3 Corporate – Specialised lending under supervisory slotting criteria approach (commodities finance)	-	-
4 Corporate – Specialised lending under supervisory slotting criteria approach (income-producing real estate)	7,093	7,093
5 Corporate – Specialised lending (high-volatility commercial real estate)	-	-
6 Corporate – Small-and-medium sized corporates	18,588	18,588
7 Corporate – Other corporates	232,870	232,870
8 Sovereigns	9,175	9,175
9 Sovereign foreign public sector entities	-	-
10 Multilateral development banks	2,807	2,807
11 Bank exposures – Banks	20,066	20,066
12 Bank exposures – Securities firms	62	62
13 Bank exposures – Public sector entities (excluding sovereign foreign public sector entities)	-	-
14 Retail – Small business retail exposures	149	149
15 Retail – Residential mortgages to individuals	28,672	28,672
16 Retail – Residential mortgages to property-holding shell companies	1,193	1,193
17 Retail – Qualifying revolving retail exposures ("QRRE")	21,017	21,017
18 Retail – Other retail exposures to individuals	7,822	7,822
19 Equity – Equity exposures under market-based approach (simple risk-weight method)	15,652	15,652
20 Equity – Equity exposures under market-based approach (internal models method)	-	-
21 Equity – Equity exposures under PD/LGD approach (publicly traded equity exposures held for long-term)	-	-
22 Equity – Equity exposures under PD/LGD approach (privately owned equity exposures held for long-term investment)	-	-
23 Equity – Equity exposures under PD/LGD approach (other publicly traded equity exposures)	-	-
24 Equity – Equity exposures under PD/LGD approach (other equity exposures)	-	-
25 Equity – Equity exposures associated with equity investments in funds (CIS exposures)	-	-
26 Other – Cash items	217	217
27 Other – Other items	36,447	36,447
28 Total (under the IRB calculation approaches)	401,830	401,830

There is no effect in RWA, as the Group does not have credit derivative contracts used as recognised credit risk mitigation.

Table CR8: RWA flow statement of credit risk exposures under IRB approach

	a
	Amount
	HK\$m
1 RWA as at end of previous reporting period (31 Mar 2017)	378,645
2 Asset size	11,082
3 Asset quality	(1,995)
4 Model updates	-
5 Methodology and policy	212
6 Acquisitions and disposals	-
7 Foreign exchange movements	1,672
8 Other	(3,438)
9 RWA as at end of reporting period (30 Jun 2017)	386,178

RWA as at end of previous reporting period was restated to exclude 1.06 scaling factor following a clarification from the HKMA in July 2017. RWA increased by HK\$7.5bn during the second quarter of 2017, mainly due to the changes in asset size (consisting of changes in book size and composition).

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CR10 (1): Specialised lending under supervisory slotting criteria approach – other than high-volatility commercial real estate ("HVCRE")

As at 30 Jun 2017

		a	b	c	d(i)	d(ii)	d(iii)	d(iv)	d(v)	e	f	
		On- balance sheet exposure amount	Off- balance sheet exposure amount	Supervi- sory risk- weighted ("SRW")	EAD amount					Total	RWA	Expected loss amount
Supervisory Rating	Remaining Maturity				Project finance ("PF")	Object finance ("OF")	Commo- dities finance ("CF")	Income- producing real estate ("IPRE")	HK\$m			
Strong [^]	Less than 2.5 years	825	434	50%	-	-	-	-	1,066	1,066	533	-
Strong	Less than 2.5 years	576	28	70%	-	-	-	-	583	583	408	3
Strong	Equal to or more than 2.5 years	5,251	715	70%	-	-	-	-	5,432	5,432	3,802	21
Good [^]	Less than 2.5 years	29	-	70%	-	-	-	-	29	29	20	-
Good	Less than 2.5 years	1,353	91	90%	-	-	-	-	1,388	1,388	1,250	11
Good	Equal to or more than 2.5 years	1,164	45	90%	-	-	-	-	1,175	1,175	1,059	9
Satisfactory		19	-	115%	-	-	-	-	19	19	21	1
Weak		-	-	250%	-	-	-	-	-	-	-	-
Default		-	-	0%	-	-	-	-	-	-	-	-
Total		9,217	1,313		-	-	-	-	9,692	9,692	7,093	45

[^] Use of preferential risk-weights.

Table CR10 (2): Equity exposures under the simple risk-weight method

As at 30 Jun 2017

	a	b	c	d	e
Categories	On-balance sheet exposure amount	Off-balance sheet exposure amount	SRW	EAD amount	RWA
	HK\$m	HK\$m		HK\$m	HK\$m
Publicly traded equity exposures	69	-	300%	69	208
All other equity exposures	3,861	-	400%	3,861	15,444
Total	3,930	-		3,930	15,652

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Counterparty credit risk

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to counterparty credit risk arising from derivative contracts and securities financing transactions ("SFT") with central counterparty ("CCP") or non-CCP and credit valuation adjustment ("CVA").

Table CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		a	b	c	d	e	f
		Replacement cost ("RC")	Potential exposure ("PFE")	Effective expected positive exposure ("EPE")	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
As at 30 Jun 2017		HK\$m	HK\$m	HK\$m		HK\$m	HK\$m
1	SA-CCR (for derivative contracts)	Footnote 6	1,900	8,259	N/A	10,159	2,836
1a	CEM	-	-	-	-	-	-
2	IMM (CCR) approach	-	-	-	-	-	-
3	Simple Approach (for SFTs)	-	-	-	-	-	-
4	Comprehensive Approach (for SFTs)	-	-	-	-	642	39
5	VaR for SFTs	-	-	-	-	-	-
6	Total	-	-	-	-	-	2,875

6 Prior to the implementation of SA-CCR, exposures reported here are calculated using current exposure method.

Table CCR2: CVA capital charge

		a	b
		EAD post-CRM	RWA
As at 30 Jun 2017		HK\$m	HK\$m
Netting sets for which CVA capital charge is calculated by the advanced CVA method		-	-
1	(i) VaR (after application of multiplication factor if applicable)	-	-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)	-	-
3	Netting sets for which CVA capital charge is calculated by the standardised CVA method	10,120	1,710
4	Total	10,120	1,710

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

As at 30 Jun 2017											
	a	b	c	ca	d	e	f	g	ga	h	i
Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
Exposure class	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2 PSE exposures	-	-	6	-	-	-	-	-	-	-	6
2a of which: Domestic PSEs	-	-	6	-	-	-	-	-	-	-	6
2b of which: Foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3 Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4 Bank exposures	-	-	-	-	-	-	-	-	-	-	-
5 Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6 Corporate exposures	-	-	-	-	-	-	354	-	-	-	354
7 CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8 Regulatory retail exposures	-	-	-	-	-	46	-	-	-	-	46
9 Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10 Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11 Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12 Total	-	-	6	-	-	46	354	-	-	-	406

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CCR4: Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach

	a	b	c	d	e	f	g
As at 30 Jun 2017	EAD post- CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
PD scale	HK\$m	%		%	years	HK\$m	%
Sovereign							
0.00 to < 0.15	-	-	-	-	-	-	-
0.15 to < 0.25	-	-	-	-	-	-	-
0.25 to < 0.50	-	-	-	-	-	-	-
0.50 to < 0.75	-	-	-	-	-	-	-
0.75 to < 2.50	-	-	-	-	-	-	-
2.50 to < 10.00	-	-	-	-	-	-	-
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
Bank							
0.00 to < 0.15	8,683	0.05	114	37.5	1.24	1,252	14
0.15 to < 0.25	556	0.22	13	36.7	1.09	196	35
0.25 to < 0.50	100	0.37	6	45.0	1.01	57	57
0.50 to < 0.75	32	0.63	1	45.0	1.00	24	77
0.75 to < 2.50	229	0.97	5	45.0	1.01	210	92
2.50 to < 10.00	-	-	-	-	-	-	-
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
Sub-total	9,600	0.09	139	37.7	1.22	1,739	18
Corporates							
0.00 to < 0.15	37	0.11	12	50.1	2.01	12	32
0.15 to < 0.25	46	0.22	11	57.6	1.43	21	46
0.25 to < 0.50	87	0.37	17	54.4	1.60	52	60
0.50 to < 0.75	117	0.63	22	54.5	1.15	85	72
0.75 to < 2.50	468	1.57	77	56.2	1.18	515	110
2.50 to < 10.00	39	3.84	15	56.7	1.05	58	150
10.00 to < 100.00	1	13.00	2	59.0	1.00	3	256
100.00 (Default)	-	-	-	-	-	-	-
Sub-total	795	1.29	156	55.6	1.27	746	94
Retail							
0.00 to < 0.15	-	-	-	-	-	-	-
0.15 to < 0.25	-	-	-	-	-	-	-
0.25 to < 0.50	-	-	-	-	-	-	-
0.50 to < 0.75	-	-	-	-	-	-	-
0.75 to < 2.50	-	-	-	-	-	-	-
2.50 to < 10.00	-	-	-	-	-	-	-
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
Total (sum of all portfolios)	10,395	0.18	295	39.1	1.22	2,485	24

The Group has not used IMM(CCR) approach to calculate its default risk exposure.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	a	b	c	d	e	f
	Derivative contracts				SFTs	
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
As at 30 Jun 2017	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 Cash – domestic currency	-	-	-	99	-	-
2 Cash – other currencies	-	107	-	-	6,770	-
3 Domestic sovereign debt	-	-	-	-	-	-
4 Other sovereign debt	-	-	-	-	-	7,412
5 Government agency debt	-	-	-	-	-	-
6 Corporate bonds	-	-	-	-	-	-
7 Equity securities	-	-	-	-	-	-
8 Other collateral	-	-	-	-	-	-
9 Total	-	107	-	99	6,770	7,412

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table CCR8: Exposures to CCPs

	a	b
	Exposure after CRM	RWA
	HK\$m	HK\$m
As at 30 Jun 2017		
1 Exposures of the AI as clearing member or client to qualifying CCPs (total)		24
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	118	2
3 (i) OTC derivative transactions	118	2
4 (ii) Exchange-traded derivative contracts	-	-
5 (iii) Securities financing transactions	-	-
6 (iv) Netting sets subject to valid cross-product netting agreements	-	-
7 Segregated initial margin	-	
8 Unsegregated initial margin	99	19
9 Funded default fund contributions	50	3
10 Unfunded default fund contributions	-	-
11 Exposures of the AI as clearing member or client to non-qualifying CCPs (total)		-
12 Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	-	-
13 (i) OTC derivative transactions	-	-
14 (ii) Exchange-traded derivative contracts	-	-
15 (iii) Securities financing transactions	-	-
16 (iv) Netting sets subject to valid cross-product netting agreements	-	-
17 Segregated initial margin	-	
18 Unsegregated initial margin	-	-
19 Funded default fund contributions	-	-
20 Unfunded default fund contributions	-	-

BANKING DISCLOSURE STATEMENT (unaudited) (continued)
Market risk

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to market risk under STM and IMM approaches.

Table MR1: Market risk under STM approach

		a
		RWA HK\$m
As at 30 Jun 2017		
Outright product exposures		
1	Interest rate exposures (general and specific risk)	18
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	-
4	Commodity exposures	-
Option exposures		
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitisation exposures	-
9	Total	18

Table MR2: RWA flow statement of market risk exposures under IMM approach

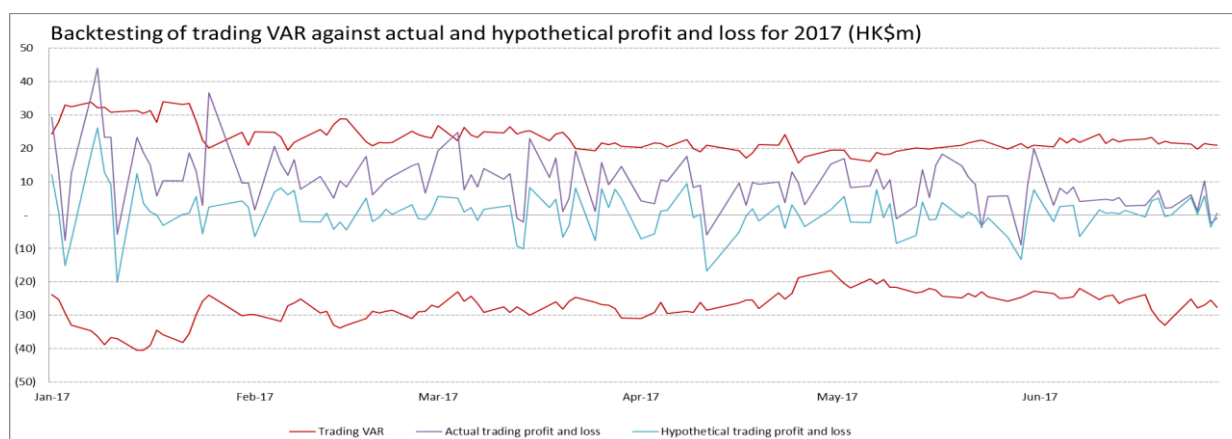
		a	b	c	d	e	f
		Value at risk ("VaR")	Stressed VaR	Incremental risk charge ("IRC")	Comprehensive risk charge ("CRC")	Other	Total RWA
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1	RWA as at end of previous reporting period (31 Mar 2017)	3,686	3,388	-	-	-	7,074
2	Movement in risk levels	(660)	1,123	-	-	-	463
3	Model updates/changes	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-
6	Foreign exchange movements	17	16	-	-	-	33
7	Other	-	-	-	-	-	-
8	RWA as at end of reporting period (30 Jun 2017)	3,043	4,527	-	-	-	7,570

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table MR3: IMM approach values for market risk exposures

		a
		Value
		HK\$m
As at 30 Jun 2017		
VaR (10 days – one-tailed 99% confidence interval)		
1	Maximum Value	128
2	Average Value	87
3	Minimum Value	53
4	Period End	87
Stressed VaR (10 days – one-tailed 99% confidence interval)		
5	Maximum Value	105
6	Average Value	85
7	Minimum Value	68
8	Period End	82
Incremental risk charge ("IRC") (99.9% confidence interval)		
9	Maximum value	-
10	Average value	-
11	Minimum value	-
12	Period end	-
Comprehensive risk charge ("CRC") (99.9% confidence interval)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-
17	Floor	-

Table MR4: Comparison of VaR estimates with gains or losses



While comparing the daily VaR measures to the actual and hypothetical profit and loss ("P&L") for the backtesting, no loss side exception is observed. Some profit side exceptions are identified for actual P&L and those are mainly driven by intraday profit arising from trading activities.

The backtesting process applies only to regulatory trading book positions. The actual P&L excludes reserve which are resulted from regulatory banking book positions and also fee and commission which are non-modelled items.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Other information

Abbreviations

A		J	
AI	Authorised institution	JCCyB	Jurisdictional countercyclical capital buffer
ALCO	Asset and Liability Management Committee	JVs	Joint ventures
AMA	Advanced measurement approach	L	
ASA	Alternative standardised approach	LCR	Liquidity coverage ratio
AT1	Additional tier 1	LGD	Loss given default
B		LTA	Look through approach
Bank	Hang Seng Bank Limited	M	
BCBS	Basel Committee on Banking Supervision	MBA	Mandate-based approach
BCR	Banking (Capital) Rules	MSRs	Mortgage servicing rights
BDAR	Banking (Disclosure) (Amendment) Rules 2016	N	
BDR	Banking (Disclosure) Rules	N/A	Not applicable
BIA	Basic indicator approach	O	
BSC	Basic approach	OF	Object finance
C		OTC	Over-the-counter
CCF	Credit conversion factor	P	
CCP	Central counterparty	P&L	Profit and loss
CCR	Counterparty credit risk	PD	Probability of default
CCyB	Countercyclical capital buffer	PF	Project finance
CDS	Credit default swap	PFE	Potential future exposure
CEM	Current exposure method	PRC	People's Republic of China
CET1	Common equity tier 1	PSE	Public sector entity
CF	Commodities finance	PVIF	Present value of in-force long-term insurance business
CIS	Collective investment scheme	Q	
CRC	Comprehensive risk charge	QRRE	Qualifying revolving retail exposures
CRM	Credit risk mitigation	R	
CSA	Credit support annex	RC	Replacement cost
CVA	Credit valuation adjustment	RMB	Renminbi
D		RMM	Risk Management Meeting
D-SIB	Domestic systematically important authorised institution	RNIV	Risks not in VaR
DTAs	Deferred tax assets	RW	Risk-weight
E		RWA	Risk-weighted asset/risk-weighted amount
EAD	Exposure at default	S	
EL	Expected loss	S	Securitisation
EPE	Expected positive exposure	SA-CCR	Standardised approach for counterparty credit risk
F		SFT	Securities financing transaction
FBA	Fall-back approach	SRW	Supervisory risk-weighted
G		STC	Standardised (credit risk) approach
G-SIB	Global systematically important authorised institution	STC(S)	Standardised (securitisation) approach
Group	Hang Seng Bank Limited together with its subsidiaries	STM	Standardised (market risk) approach
H		STO	Standardised (operational risk) approach
HK\$bn	Billions (thousands of millions) of Hong Kong dollars	U	
HK\$m	Millions of Hong Kong dollars	USD	US dollar
HKAS	Hong Kong Accounting Standard	V	
HKMA	Hong Kong Monetary Authority	VaR	Value at risk
HKFRS	Hong Kong Financial Reporting Standards		
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China		
HVCRE	High-volatility commercial real estate		
HQLA	High quality liquid assets		
I			
IMM	Internal models approach		
IMM(CCR)	Internal models (counterparty credit risk) approach		
IPRE	Income-producing real estate		
IRB	Internal ratings-based approach		
IRB(S)	Internal ratings-based (securitisation) approach		
IRC	Incremental risk charge		
ISDA	International Swaps and Derivatives Association		