



**恒生銀行**  
HANG SENG BANK

## **Banking Disclosure Statement**

**30 June 2018**

**(Unaudited)**

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

## BANKING DISCLOSURE STATEMENT *(unaudited)*

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## **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.

These banking disclosures are governed by the Group's disclosure policy, which has been approved by the Board. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the Banking Disclosure Statement is not required to be externally audited, the document has been subject to independent review in accordance with the Group's policies on disclosure and its financial reporting and governance processes.

#### **Basis of preparation**

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 information in this document is not audited and does not constitute statutory accounts.

#### **The Banking Disclosure Statement**

The Hong Kong Monetary Authority ("HKMA") has implemented the Basel Committee on Banking Supervision ("BCBS") standards on revised Pillar 3 disclosures requirements released in January 2015 ("January 2015 standard") since 2017. In June 2018, the HKMA has further amended the BDR for incorporating the BCBS Pillar 3 disclosures requirements - consolidated and enhanced framework finalised in March 2017 ("March 2017 standard"). The Group has implemented the relevant updates and new requirements in accordance with the latest BDR. 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. Prior period disclosures can be found in the Regulatory Disclosures section of our website, [www.hangseng.com](http://www.hangseng.com).

**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

**Key prudential ratios**

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At <sup>1</sup>				
	Footnotes	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017
<b>Regulatory capital (HK\$m)</b>	2					
1 Common Equity Tier 1 ("CET1")		97,542	95,632	94,458	92,323	89,798
2 Tier 1		104,523	102,613	101,439	99,304	96,779
3 Total capital		118,100	116,016	115,247	114,924	112,362
<b>RWA (HK\$m)</b>	2					
4 Total RWA		601,549	600,727	572,723	559,689	555,759
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>	2					
5 CET1 ratio (%)		16.2	15.9	16.5	16.5	16.2
6 Tier 1 ratio (%)		17.4	17.1	17.7	17.7	17.4
7 Total capital ratio (%)		19.6	19.3	20.1	20.5	20.2
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>	2					
8 Capital conservation buffer requirement (%)		1.875	1.875	1.250	1.250	1.250
9 Countercyclical capital buffer requirement (%)		1.651	1.626	1.085	1.071	1.068
10 Higher loss absorbency requirements (%) (applicable only to Global systemically important authorised institution ("G-SIBs") or Domestic systemically important authorised institution ("D- SIBs"))		1.125	1.125	0.750	0.750	0.750
11 Total AI-specific CET1 buffer requirements (%)		4.651	4.626	3.085	3.071	3.068
12 CET1 available after meeting the AI's minimum capital requirements (%)		11.4	11.1	11.7	11.7	11.4
<b>Basel III leverage ratio</b>	3					
13 Total leverage ratio ("LR") exposure measure (HK\$m)		1,444,966	1,415,190	1,388,288	1,352,559	1,320,426
14 LR (%)		7.2	7.3	7.3	7.3	7.3
<b>Liquidity Coverage Ratio ("LCR")</b>	4					
15 Total high quality liquid assets ("HQLA") (HK\$m)		274,966	279,172	277,788	286,364	298,989
16 Total net cash outflows (HK\$m)		131,540	135,437	133,131	118,750	116,906
17 LCR (%)		209.6	207.0	209.5	242.3	256.7
<b>Net Stable Funding Ratio ("NSFR")</b>	5					
18 Total available stable funding (HK\$m)		1,058,496	1,025,318	N/A	N/A	N/A
19 Total required stable funding (HK\$m)		689,335	670,407	N/A	N/A	N/A
20 NSFR (%)		153.6	152.9	N/A	N/A	N/A

1 All figures reported in 2018 are under the new Hong Kong Financial Reporting Standard 9 ("HKFRS 9"). Prior to 2018, the figures presented are reported under the Hong Kong Accounting Standard 39 ("HKAS 39").

2 The regulatory capital, RWAs, risk-based regulatory capital ratios and additional CET1 buffer requirements are disclosed in accordance with the information contained in the 'Capital Adequacy Ratio' return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the BCR.

3 From 1 January 2018 onwards, the Basel III leverage ratio disclosures are made in accordance with the information contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR. Prior to 2018, the leverage ratio disclosures are made in accordance with the 'Quarterly Template on Leverage Ratio' submitted to the HKMA during the parallel run period.

4 The Liquidity Coverage Ratios shown are the simple average values of all working days in the reporting periods and are made in accordance with the requirements specified in the 'Liquidity Position' return submitted to the HKMA under rule 11(1) of the Banking (Liquidity) Rules ("BLR").

5 The Net Stable Funding Ratio disclosures are made in accordance with the information contained in the 'Stable Funding Position' return submitted to the HKMA under the requirements specified in rule 11(1) of the BLR. The requirements have been implemented with effect from 2018 reporting periods. Accordingly, the 2017 ratios are not shown.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Structure of the regulatory group

#### 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 4 on the condensed consolidated financial statements in the 2018 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 Banking (Capital) Rules ("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 ("AI") 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.

For insurance entities, the figures shown below 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. As at 30 June 2018, the PVIF asset of HK\$15,965m 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 below.

As at 30 June 2018, 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 as at 30 June 2018.

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 2018, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$4,871m.

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 2018.

A list of subsidiaries not included in consolidation for regulatory purposes is shown below:

Table 2: List of subsidiaries outside the regulatory scope of consolidation

	Principal activities	As at 30 Jun 2018	
		Total assets*	Total equity*
		HK\$m	HK\$m
Hang Seng Futures Ltd	Futures brokerages	102	102
Hang Seng Investment Management Ltd	Fund management	1,440	1,395
Hang Seng Investment Services Ltd	Provision of investment commentaries	9	9
Hang Seng Securities Ltd	Stockbroking	2,915	963
Hang Seng Insurance Co. Ltd and its subsidiaries	Retirement benefits and life assurance	135,854	11,459
Hang Seng Qianhai Fund Management Co. Ltd	Asset management	139	129

\* Prepared in accordance with HKFRS

The approaches used in calculating the Group's regulatory capital and risk-weighted assets ("RWAs") are in accordance with the 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) ("STM") approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) ("STO") approach to calculate its operational risk.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Balance sheet reconciliation**

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

Table 3: CC2 – Reconciliation of regulatory capital to balance sheet

	a	b	c
	<b>Balance sheet as in published financial statements As at 30 June 2018 HK\$m</b>	<b>Under regulatory scope of consolidation As at 30 June 2018 HK\$m</b>	<b>Cross-referenced to Definition of Capital Components</b>
<b>Assets</b>			
Cash and sight balances at central banks	10,387	10,387	
Placings with and advances to banks	97,183	93,615	
Trading assets	44,283	44,283	
Financial assets designated at and otherwise mandatorily measured at fair value	13,070	123	
Derivative financial instruments	9,329	9,374	
Reverse repurchase agreements - non-trading	3,172	3,172	
Loans and advances to customers	855,237	857,468	
<i>of which: Impairment allowances eligible for inclusion in Tier 2 capital</i>		943	(1)
Financial investments	402,167	300,726	
Investment in subsidiaries		7,104	
Subordinated loans to subsidiaries		915	(2)
Interest in associates	2,408		
Investment properties	9,858	6,987	
Premises, plant and equipment	29,742	29,411	
Intangible assets	16,786	485	(3)
Other assets	41,000	25,867	
<i>of which: Deferred tax assets ("DTAs")</i>		145	(4)
<i>Defined benefit pension fund net assets</i>		58	(5)
<b>Total assets</b>	<b>1,534,622</b>	<b>1,389,917</b>	
<b>Liabilities</b>			
Current, savings and other deposit accounts	1,116,777	1,119,258	
Repurchase agreements – non-trading	5,796	5,796	
Deposits from banks	5,552	5,552	
Trading liabilities	41,921	41,921	
Financial liabilities designated at fair value	46,049	45,574	
<i>of which: Gains and losses due to changes in own credit risk on fair valued liabilities</i>		(6)	(6)
Derivative financial instruments	9,666	9,808	
Other liabilities	25,694	20,265	
Liabilities under insurance contracts	118,731		
Current tax liabilities	2,575	2,499	
Deferred tax liabilities	6,187	3,531	
<i>of which: Deferred tax liabilities related to intangible assets</i>		31	(7)
<i>Deferred tax liabilities related to defined benefit pension fund</i>		10	(8)
<b>Total liabilities</b>	<b>1,378,948</b>	<b>1,254,204</b>	
<b>Equity</b>			
Share capital	9,658	9,658	(9)
Retained profits	117,360	97,446	(10)
<i>of which: Revaluation gains of investment properties</i>		6,541	(11)
<i>Regulatory reserve for general banking risks</i>		4,871	(12)
<i>Regulatory reserve eligible for inclusion in Tier 2 capital</i>		2,080	(13)
<i>Valuation adjustments</i>		45	(14)
Other equity instruments	6,981	6,981	(15)
Other reserves	21,636	21,628	(16)
<i>of which: Cash flow hedge reserve</i>		(81)	(17)
<i>Valuation adjustments</i>		227	(18)
<i>Revaluation reserve of properties</i>		18,946	(19)
<b>Total shareholders' equity</b>	<b>155,635</b>	<b>135,713</b>	
Non-controlling interests	39		
<b>Total equity</b>	<b>155,674</b>	<b>135,713</b>	
<b>Total equity and liabilities</b>	<b>1,534,622</b>	<b>1,389,917</b>	

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Capital and risk-weighted assets**
**Regulatory capital disclosures**

The following table sets out the detailed composition of the Group's regulatory capital using the composition of regulatory capital disclosures template as specified by the HKMA.

Table 4: CC1 – Composition of regulatory capital

	a	b
	Component of regulatory capital	Cross-referenced to Table 3 Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
As at 30 June 2018	HK\$m	
<b>CET1: instruments and reserves</b>		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	9,658 (9)
2	Retained earnings	97,446 (10)
3	Disclosed reserves	21,628 (16)
4	Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)	Not applicable 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	<b>CET1 capital before regulatory adjustments</b>	<b>128,732</b>
<b>CET1 capital: regulatory deductions</b>		
7	Valuation adjustments	272 (14) + (18)
8	Goodwill (net of associated deferred tax liability)	-
9	Other intangible assets (net of associated deferred tax liabilities)	454 (3) - (7)
10	Deferred tax assets (net of associated deferred tax liabilities)	145 (4)
11	Cash flow hedge reserve	(81) (17)
12	Excess of total EL amount over total eligible provisions under the IRB approach ("Internal ratings-based approach")	-
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitisation transactions	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	(6) (6)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	48 (5) - (8)
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 (net of associated deferred tax liabilities)	Not applicable Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable Not applicable
22	Amount exceeding the 15% threshold	Not applicable Not applicable
23	<i>of which: significant investments in the ordinary share of financial sector entities</i>	<i>Not applicable Not applicable</i>
24	<i>of which: mortgage servicing rights</i>	<i>Not applicable Not applicable</i>
25	<i>of which: deferred tax assets arising from temporary differences</i>	<i>Not applicable Not applicable</i>
26	National specific regulatory adjustments applied to CET1 capital	30,358
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	25,487 (11) + (19)
26b	Regulatory reserve for general banking risks	4,871 (12)
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 additional tier 1 ("AT1") capital and Tier 2 capital to cover deductions	-
28	<b>Total regulatory deductions to CET1 capital</b>	<b>31,190</b>
29	<b>CET1 capital</b>	<b>97,542</b>



**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 4: CC1 – Composition of regulatory capital (continued)

	a	b
	Component of regulatory capital	Cross-referenced to Table 3 Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	HK\$m	
<b>AT1 capital: instruments</b>		
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 (15)
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	<b>AT1 capital before regulatory deductions</b>	<b>6,981</b>
<b>AT1 capital: regulatory deductions</b>		
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	-
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-
43	<b>Total regulatory deductions to AT1 capital</b>	<b>-</b>
44	<b>AT1 capital</b>	<b>6,981</b>
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>104,523</b>
<b>Tier 2 capital: instruments and provisions</b>		
46	Qualifying Tier 2 capital instruments plus any related share premium	-
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 provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	3,023 (1) + (13)
51	<b>Tier 2 capital before regulatory deductions</b>	<b>3,023</b>
<b>Tier 2 capital: regulatory deductions</b>		
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 (net of eligible short positions)	915 (2)
56	National specific regulatory adjustments applied to Tier 2 capital	(11,469)
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	(11,469) ((11) + (19))*45%
57	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>(10,554)</b>
58	<b>Tier 2 capital (T2)</b>	<b>13,577</b>
59	<b>Total regulatory capital (TC = T1 + T2)</b>	<b>118,100</b>
60	<b>Total RWA</b>	<b>601,549</b>
<b>Capital ratios (as a percentage of RWA)</b>		
61	<b>CET1 capital ratio</b>	<b>16.22%</b>
62	<b>Tier 1 capital ratio</b>	<b>17.38%</b>
63	<b>Total capital ratio</b>	<b>19.63%</b>
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer ("CCyB") plus higher loss absorbency requirements)</b>	<b>4.651%</b>
65	<i>of which: capital conservation buffer requirement</i>	<i>1.875%</i>
66	<i>of which: bank specific countercyclical capital buffer requirement</i>	<i>1.651%</i>
67	<i>of which: higher loss absorbency requirement</i>	<i>1.125%</i>
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	11.38%

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 4: CC1 – Composition of regulatory capital (continued)

	a	b
	Component of regulatory capital	Cross-referenced to Table 3 Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	HK\$m	
<b>National minima (if different from Basel 3 minimum)</b>		
69	National CET1 minimum ratio	Not applicable
70	National Tier 1 minimum ratio	Not applicable
71	National Total capital minimum ratio	Not applicable
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	3,737
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	7,703
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the Basic ("BSC") approach, or the Standardised (credit risk) ("STC") approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	764
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	812
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	2,259
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	2,884
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
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)	-

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:

	Hong Kong basis	Basel III basis
	HK\$m	HK\$m
As at 30 Jun 2018		
10	Deferred tax assets (net of associated deferred tax liabilities)	145

**Explanation**

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realised 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 Mortgage servicing rights ("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% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

The following is a summary of the Group's CET1 capital and AT1 capital instruments.

Table 5: CCA – Main features of regulatory capital instruments

		a	
As at 30 June 2018		Quantitative / qualitative information	
		1) Ordinary shares	2) Perpetual subordinated loan (US\$ 900 million)
1	Issuer	Hang Seng Bank Limited	Hang Seng Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	HK0011000095	N/A
3	Governing law(s) of the instrument	Laws of Hong Kong	Laws of Hong Kong
<i>Regulatory treatment</i>			
4	Transitional Basel III rules <sup>1</sup>	N/A	N/A
5	Post-transitional Basel III rules <sup>2</sup>	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo /group /solo and group	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 millions, as of most recent reporting date)	HK\$ 9,658 million	HK\$ 6,981 million
9	Par value of instrument	No par value (Total amount HK\$ 9,658 million)	US\$ 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 US\$ 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	Non-cumulative 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 in the insolvency creditor hierarchy of the legal entity concerned).	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](#)

Footnote:

<sup>1</sup> Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

<sup>2</sup> Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

**Countercyclical capital buffer ratio**

The Countercyclical capital buffer is calculated as the weighted average of the applicable CCyB ratios in effect in the jurisdictions in which banks have private sector credit exposures. 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 2018, the applicable jurisdictional CCyB ("JCCyB") ratio in force in Hong Kong was 1.875%, 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 increased from 1.25% to 1.875% on 1 January 2018.

Table 6: CCyB1 – Geographical distribution of credit exposures used in countercyclical capital buffer

As at 30 Jun 2018		a	c	d	e
Geographical breakdown by Jurisdiction ("J")		Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
	Footnotes	%	HK\$m	%	HK\$m
1	Hong Kong SAR	1.875	442,597		
	<b>Sum</b>		442,597		
	<b>Total</b>		502,580	<b>1.651</b>	<b>9,932</b>

1 This represents the sum of RWAs for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

2 The total RWAs used in the computation of the CCyB ratio in column (c) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the bank is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (e) represents the Group's total RWAs multiplied by the Group specific CCyB ratio in column (d).

There is a change in the methodology of calculating the CCyB amount following the implementation of the Banking (Disclosure) (Amendment) Rules 2018 where the disclosure template has been updated. At 30 June 2018, the CCyB amount represents the Group's total RWA multiplied by the Group specific CCyB ratio. Prior to 30 June 2018, the CCyB amount was the Group's total RWA relating to private sector credit exposures multiplied by the Group specific CCyB ratio. The change is presentational only and has no impact on the Group's capital requirements.

**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

**Leverage ratio**

Table 7: LR2 – Leverage ratio

	a	b
	30 Jun 2018 HK\$m	31 Mar 2018 HK\$m
<b>On-balance sheet exposures</b>		
1 On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	1,373,387	1,343,929
2 Less: Asset amounts deducted in determining Tier 1 capital	(31,272)	(30,302)
<b>3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>1,342,115</b>	<b>1,313,627</b>
<b>Exposures arising from derivative contracts</b>		
4 Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	3,774	5,387
5 Add-on amounts for PFE associated with all derivative contracts	11,656	11,423
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7 Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8 Less: Exempted CCP ("Central counterparty") leg of client-cleared trade exposures	-	-
9 Adjusted effective notional amount of written credit derivative contracts	-	-
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
<b>11 Total exposures arising from derivative contracts</b>	<b>15,430</b>	<b>16,810</b>
<b>Exposures arising from SFTs</b>		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	9,584	8,631
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14 Counterparty credit risk ("CCR") exposure for SFT assets	614	572
15 Agent transaction exposures	-	-
<b>16 Total exposures arising from SFTs</b>	<b>10,198</b>	<b>9,203</b>
<b>Other off-balance sheet exposures</b>		
17 Off-balance sheet exposure at gross notional amount	480,198	472,974
18 Less: Adjustments for conversion to credit equivalent amounts	(400,464)	(394,973)
<b>19 Off-balance sheet items</b>	<b>79,734</b>	<b>78,001</b>
<b>Capital and total exposures</b>		
<b>20 Tier 1 capital</b>	<b>104,523</b>	<b>102,613</b>
<b>20a Total exposures before adjustments for specific and collective provisions</b>	<b>1,447,477</b>	<b>1,417,641</b>
<b>20b Adjustments for specific and collective provisions</b>	<b>(2,511)</b>	<b>(2,451)</b>
<b>21 Total exposures after adjustments for specific and collective provisions</b>	<b>1,444,966</b>	<b>1,415,190</b>
<b>Leverage ratio</b>		
<b>22 Leverage ratio</b>	<b>7.23%</b>	<b>7.25%</b>

Table 8: LR1 – Summary comparison of accounting assets against leverage ratio exposure measure

As at 30 Jun 2018	a
Item	Value under the LR framework HK\$m
1 Total consolidated assets as per published financial statements	1,534,622
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(138,070)
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4 Adjustments for derivative contracts	6,056
5 Adjustment for SFTs (i.e. repos and similar secured lending)	614
6 Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	79,734
6a Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(2,511)
7 Other adjustments	(35,479)
<b>8 Leverage ratio exposure measure</b>	<b>1,444,966</b>

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)**
**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), 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%.

Table 9: OV1 – Overview of RWA

	a	b	c
	RWA		Minimum capital requirements
	30 Jun 2018 HK\$m	31 Mar 2018 HK\$m	30 Jun 2018 HK\$m
1 Credit risk for non-securitisation exposures	481,170	478,695	40,493
2 <i>Of which: STC approach</i>	64,593	65,620	5,167
2a <i>Of which: Basic ("BSC") approach</i>	-	-	-
3 <i>Of which: Foundation IRB approach</i>	-	-	-
4 <i>Of which: Supervisory slotting criteria approach</i>	8,134	7,434	690
5 <i>Of which: Advanced IRB approach</i>	408,443	405,641	34,636
6 Counterparty default risk and default fund contributions	3,259	3,918	274
7 <i>Of which: Standardised approach for counterparty credit risk ("SA-CCR")*</i>	Not applicable	Not applicable	Not applicable
7a <i>Of which: Current exposure method ("CEM")</i>	3,161	3,824	266
8 <i>Of which: Internal models (counterparty credit risk) ("IMM(CCR")) approach</i>	-	-	-
9 <i>Of which: Others</i>	98	94	8
10 Credit valuation adjustment ("CVA") risk	1,982	2,077	159
11 Equity positions in banking book under the simple risk-weight method and internal models method	15,166	17,892	1,286
12 Collective investment scheme ("CIS") exposures – Look-through approach ("LTA")*	Not applicable	Not applicable	Not applicable
13 CIS exposures – Mandate-based approach ("MBA")*	Not applicable	Not applicable	Not applicable
14 CIS exposures – Fall-back approach ("FBA")*	Not applicable	Not applicable	Not applicable
14a CIS exposures – combination of approaches*	Not applicable	Not applicable	Not applicable
15 Settlement risk	-	-	-
16 Securitisation exposures in banking book	-	-	-
17 <i>Of which: Securitisation internal ratings-based approach ("SEC-IRBA")</i>	-	-	-
18 <i>Of which: Securitisation external ratings-based approach ("SEC-ERBA")</i>	-	-	-
19 <i>Of which: Securitisation standardised approach ("SEC-SA")</i>	-	-	-
19a <i>Of which: Securitisation fall-back approach ("SEC-FBA")</i>	-	-	-
20 Market risk	11,846	10,830	948
21 <i>Of which: STM approach</i>	29	60	2
22 <i>Of which: Internal models ("IMM") approach</i>	11,817	10,770	946
23 Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	Not applicable	Not applicable	Not applicable
24 Operational risk	55,655	53,883	4,452
25 Amounts below the thresholds for deduction (subject to 250% RW)	19,257	19,786	1,633
26 Capital floor adjustment	-	-	-
26a Deduction to RWA	(14,018)	(13,607)	(1,121)
26b <i>Of which: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	-	-	-
26c <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>	(14,018)	(13,607)	(1,121)
27 <b>Total</b>	<b>574,317</b>	<b>573,474</b>	<b>48,124</b>

1. Items marked with an asterisk (\*) will be applicable only after their respective policy frameworks take effect. Until then, 'Not applicable' is reported in the rows.

Total RWAs (before any applicable scaling factor) increased by HK\$0.9bn since last quarter. Credit risk RWA for non-securitisation exposures and operational risk RWA were the main contributors which were partly offset by the decrease in equity exposures under the simple risk-weight method.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**RWA flow statements**
**RWA flow statement for credit risk**

The following table shows movements in RWAs for credit risk determined under the IRB approach. The analysis is prepared in accordance with the key drivers as specified in the standard template. For the purposes of this section, any reference to exposures related to "credit risk" is referring to credit risk for non-securitisation exposures excluding counterparty credit risk.

Table 10: 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 2018)	413,075
2	Asset size	17,314
3	Asset quality	(9,187)
4	Model updates	-
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	(2,781)
8	Other	(1,844)
9	<b>RWA as at end of reporting period (30 Jun 2018)</b>	<b>416,577</b>

RWA increased by HK\$3.5bn in the second quarter of 2018. Loan growth was the key driver for the increase in RWA and the effect was partly offset by the change in asset quality and foreign exchange movements.

**RWA flow statement for market risk**

The following table shows movements in RWAs for market risk determined under the IMM approach. The analysis is prepared in accordance with the key drivers as specified in the standard template.

Table 11: MR2 – RWA flow statement of market risk exposures under IMM approach

		a	b	c	d	e	f
		Value at risk ("VaR") HK\$m	Stressed VaR HK\$m	Incremental risk charge ("IRC") HK\$m	Comprehensive risk charge ("CRC") HK\$m	Other HK\$m	Total RWA HK\$m
1	RWA as at end of previous reporting period (31 Mar 2018)	3,407	7,363	-	-	-	10,770
2	Movement in risk levels	1,023	27	-	-	-	1,050
3	Model updates/changes	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-
6	Foreign exchange movements	(1)	(2)	-	-	-	(3)
7	Other	-	-	-	-	-	-
8	<b>RWA as at end of reporting period (30 Jun 2018)</b>	<b>4,429</b>	<b>7,388</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,817</b>

**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

**Credit Risk**

**Credit quality of assets**

Tables 12 to 13 analyse credit exposures between defaulted and non-defaulted, changes in defaulted loans and debt securities and exposures by industries on a regulatory consolidation basis. The exposures covered in the tables include loans, debt securities and off-balance sheet exposures. Loans are generally referred to as any on-balance sheet exposures included as credit risk for non-securitisation exposures, covering exposures to customers, banks, sovereigns and etc., whilst cash items and non-financial assets are excluded.

Table 12: CR1 – Credit quality of exposures

	a	b	c	d
	Gross carrying amounts of			
	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values
As at 30 Jun 2018	HK\$m	HK\$m	HK\$m	HK\$m
1 Loans	2,638	958,882	2,428	959,092
2 Debt securities	-	297,165	5	297,160
3 Off-balance sheet exposures	-	480,198	83	480,115
<b>4 Total</b>	<b>2,638</b>	<b>1,736,245</b>	<b>2,516</b>	<b>1,736,367</b>

Table 13: CR2 – Changes in defaulted loans and debt securities

	a
	Amount
	Footnote
	HK\$m
1 Defaulted loans and debt securities at end of the previous reporting period (31 Dec 2017)	1,970
2 Loans and debt securities that have defaulted since the last reporting period	1,387
3 Returned to non-defaulted status	(19)
4 Amounts written off	(437)
5 Other changes	1 (263)
<b>6 Defaulted loans and debt securities at end of the current reporting period (30 Jun 2018)</b>	<b>2,638</b>

1 Other changes included repayment, foreign exchange movements and changes on adoption of HKFRS 9 on 1 January 2018.

The increase in defaulted loans and debts securities in the first half of 2018 was mainly due to downgrading of certain corporate customers.

For customer loans and advances, where the industry sector comprises not less than 10% of the Group's total gross loans and advances to customers, the analysis of gross impaired loans and advances and allowances by major industry sectors based on internal categories and definitions is as follows:

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

	Gross loans and advances to customers <sup>1</sup>	Gross Impaired loans and advances	Specific provisions <sup>2</sup>	Collective provisions <sup>2</sup>	Overdue loans and advances
As at 30 Jun 2018	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Residential mortgages	229,169	178	(1)	-	120
Commercial real estate	244,601	526	(76)	(177)	76
Other	386,123	1,924	(668)	(1,503)	762
<b>Total</b>	<b>859,893</b>	<b>2,628</b>	<b>(745)</b>	<b>(1,680)</b>	<b>958</b>

<sup>1</sup> The amounts shown in column 'Gross loans and advances to customers' represent the loans and advances to customers gross of provisions in the financial statements under regulatory consolidation scope and therefore is different from the 'Gross loans and advances to customers' shown in table 15 which is prepared on accounting consolidation basis. The difference of total gross loans of HK\$2,231m represents the Bank's loans and advances to the Group's subsidiaries which are outside the regulatory scope of consolidation.

<sup>2</sup> The classification of specific and collective provisions follows the treatment specified in the completion instruction of the HKMA Capital Adequacy Ratio – MA(BS)3 return. According to completion instruction, impairment provisions pertaining to exposures classified into Stage 1 and Stage 2 under HKFRS 9 are treated as collective provisions, those pertaining to exposures classified under Stage 3 are treated as specific provisions.



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Loans and advances to customers

Tables 15 to 18 analyse the loans and advances to customers by geographical locations, by industries, impaired loans and advances and overdue and rescheduled loans and advances on an accounting consolidation basis which is different from the basis of regulatory consolidation.

The following analysis of loans and advances to customers by geographical areas is in accordance with the location of counterparties, after recognised risk transfer.

Table 15: Loans and advances to customers by geographical location

	<b>Hong Kong</b>	<b>Mainland China</b>	<b>Others</b>	<b>Total</b>
As at 30 Jun 2018	<u>HK\$m</u>	<u>HK\$m</u>	<u>HK\$m</u>	<u>HK\$m</u>
Gross loans and advances to customers	742,537	87,593	27,532	857,662

Impaired loans and advances to customers are those loans and advances where objective evidence exists that full repayment of principal or interest is considered unlikely. Specific provisions are made after taking into account the value of collateral, in respect of such loans and advances. The geographical information shown below has been classified by the location of the principal operations of the subsidiary and by the location of the branch responsible for advancing the funds.

Table 16: Impaired and overdue loans and advances to customers

	<b>Hong Kong</b>	<b>Mainland China</b>	<b>Others</b>	<b>Total</b>
As at 30 Jun 2018	<u>HK\$m</u>	<u>HK\$m</u>	<u>HK\$m</u>	<u>HK\$m</u>
Impaired gross loans and advances	2,236	392	-	2,628
Non-impaired gross loans and advances	772,920	66,493	15,621	855,034
<b>Total gross loans and advances to customers</b>	<b>775,156</b>	<b>66,885</b>	<b>15,621</b>	<b>857,662</b>
Impairment allowances				
- specific provisions	(663)	(82)	-	(745)
- collective provisions	(1,487)	(186)	(7)	(1,680)
<b>Net loans and advances</b>	<b>773,006</b>	<b>66,617</b>	<b>15,614</b>	<b>855,237</b>
Total impaired gross loans and advances as a percentage of total gross loans and advances to customers	0.29%	0.59%	-	0.31%
Total allowances as a percentage of total gross loans and advances to customers	0.28%	0.40%	0.04%	0.28%
Overdue loans and advances to customers	908	50	0	958

The classification of specific and collective provisions follows the treatment specified in the completion instruction of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Detail can be found in footnote 2 under table14 of this document.

**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

The analysis of gross loans and advances to customers by industry sector based on categories and definitions contained in the "Quarterly Analysis of Loans and Advances and Provisions - (MA(BS)2A)" return submitted to the HKMA is as follows:

Table 17: Gross loans and advances to customers by industry sector

As at 30 Jun 2018	Gross loans and advances HK\$m	% of gross advances covered by collateral %
Industrial, commercial and financial sectors		
- property development	66,935	41.5
- property investment	143,814	85.3
- financial concerns	10,508	56.4
- stockbrokers	463	4.3
- wholesale and retail trade	29,595	48.3
- manufacturing	23,401	39.9
- transport and transport equipment	13,979	57.3
- recreational activities	192	30.6
- information technology	7,751	4.0
- other	75,281	70.2
Individuals		
- loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	22,723	100.0
- loans and advances for the purchase of other residential properties	182,050	100.0
- credit card loans and advances	26,894	-
- other	31,247	55.4
Gross loans and advances for use in Hong Kong	634,833	73.0
Trade finance	44,074	21.7
Gross loans and advances for use outside Hong Kong	178,755	35.9
<b>Gross loans and advances to customers</b>	<b>857,662</b>	<b>62.6</b>

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.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

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 18: Overdue loans and advances to customers

As at 30 Jun 2018	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	106	0.01
- more than six months but not more than one year	51	0.01
- more than one year	801	0.09
<b>Total</b>	<b>958</b>	<b>0.11</b>
of which:		
- individually impaired allowances	(415)	-
- covered portion of overdue loans and advances	432	-
- uncovered portion of overdue loans and advances	526	-
- current market value of collateral held against the covered portion of overdue loans and advances	826	-
Rescheduled loans and advances to customers	109	0.01

Collateral held with respect to overdue loans and advances is mainly residential properties and commercial properties. The current market value of residential properties and commercial properties were HK\$761m and HK\$49m 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.

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".

The amount of repossessed assets as at 30 June 2018 was HK\$28m.

### Overdue and rescheduled amounts relating to placings with and advances to banks and other assets

There were no impaired, overdue or rescheduled placings with and advances to banks, nor overdue or rescheduled other assets as at 30 June 2018.

## 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'. 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

	<b>30 Jun 2018</b>
	<b>HK\$m</b>
<b>Contract amounts</b>	
Direct credit substitutes	4,970
Transaction-related contingencies	6,595
Trade-related contingencies	16,424
Commitments that are unconditionally cancellable without prior notice	388,407
Commitments which have an original maturity of not more than one year	8,531
Commitments which have an original maturity of more than one year	55,271
<b>Total</b>	<b>480,198</b>
RWAs	<b>50,094</b>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Credit risk under internal ratings-based approach**

Table 20.1: CR6 – 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-credit risk mitigation ("CRM") and post- CCF			Average loss given default ("LGD")	Average maturity	RWA	RWA density	Expected loss ("EL")	Provisions <sup>^</sup>
As at 30 Jun 2018	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-credit conversion factor ("CCF")	Average CCF	HK\$m	Average PD	Number of obligors	%	years	HK\$m	%	HK\$m	HK\$m
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
<b>Sovereign</b>												
0.00 to < 0.15	267,594	-	-	267,594	0.01	38	24.1	1.19	8,176	3	10	
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)	-	-	-	-	-	-	-	-	-	-	-	
<b>Sub-total</b>	<b>267,594</b>	<b>-</b>	<b>-</b>	<b>267,594</b>	<b>0.01</b>	<b>38</b>	<b>24.1</b>	<b>1.19</b>	<b>8,176</b>	<b>3</b>	<b>10</b>	<b>4</b>
<b>Bank</b>												
0.00 to < 0.15	109,892	981	40.6	110,291	0.04	1,007	42.2	1.14	14,255	13	18	
0.15 to < 0.25	629	260	46.2	749	0.22	73	45.1	0.87	290	39	1	
0.25 to < 0.50	2,819	-	-	2,819	0.37	67	45.0	0.68	1,505	53	5	
0.50 to < 0.75	433	24	44.8	444	0.63	40	43.1	0.82	313	70	1	
0.75 to < 2.50	697	1	-	697	0.88	41	45.1	0.93	608	87	3	
2.50 to < 10.00	7	-	-	7	3.05	7	45.0	0.06	6	86	-	
10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
<b>Sub-total</b>	<b>114,477</b>	<b>1,266</b>	<b>41.8</b>	<b>115,007</b>	<b>0.06</b>	<b>1,235</b>	<b>42.3</b>	<b>1.12</b>	<b>16,977</b>	<b>15</b>	<b>28</b>	<b>5</b>
<b>Corporate – small-and-medium sized corporates</b>												
0.00 to < 0.15	4,798	3,261	29.7	5,766	0.12	164	25.6	3.24	1,074	19	2	
0.15 to < 0.25	11,128	2,287	30.0	11,813	0.22	246	28.1	2.97	3,053	26	7	
0.25 to < 0.50	24,661	3,022	33.7	26,246	0.37	361	25.3	3.03	8,163	31	25	
0.50 to < 0.75	24,257	4,680	33.0	25,233	0.63	460	30.6	2.36	10,284	41	49	
0.75 to < 2.50	41,046	10,583	24.3	43,617	1.49	1,189	29.4	2.33	23,256	53	188	
2.50 to < 10.00	5,982	2,049	28.6	6,567	3.62	194	30.0	2.06	4,637	71	71	
10.00 to < 100.00	-	2	10.0	-	13.00	1	6.2	0.10	-	-	-	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
<b>Sub-total</b>	<b>111,872</b>	<b>25,884</b>	<b>28.5</b>	<b>119,242</b>	<b>0.99</b>	<b>2,615</b>	<b>28.5</b>	<b>2.58</b>	<b>50,467</b>	<b>42</b>	<b>342</b>	<b>669</b>
<b>Corporate – others</b>												
0.00 to < 0.15	126,835	71,284	36.8	153,052	0.09	519	44.9	2.56	40,692	27	60	
0.15 to < 0.25	45,438	28,115	35.1	55,292	0.22	335	42.5	2.22	22,172	40	52	
0.25 to < 0.50	44,873	23,338	29.2	51,685	0.37	443	36.4	2.07	22,598	44	70	
0.50 to < 0.75	48,556	25,022	27.5	55,429	0.63	401	37.8	2.04	32,556	59	132	
0.75 to < 2.50	100,035	59,222	25.3	115,020	1.48	1,382	36.0	1.83	84,438	73	602	
2.50 to < 10.00	17,152	14,356	21.8	20,287	3.85	353	40.2	1.37	22,173	109	314	
10.00 to < 100.00	95	18	24.4	99	10.42	13	21.7	4.37	104	105	2	
100.00 (Default)	2,048	-	16.2	2,048	100.00	87	48.8	1.48	-	-	999	
<b>Sub-total</b>	<b>385,032</b>	<b>221,355</b>	<b>30.7</b>	<b>452,912</b>	<b>1.18</b>	<b>3,533</b>	<b>40.3</b>	<b>2.15</b>	<b>224,733</b>	<b>50</b>	<b>2,231</b>	<b>2,262</b>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 20.2: CR6 – 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 2018	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 <sup>^</sup>
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
<b>Retail – qualifying revolving retail exposures ("QRRE")</b>												
0.00 to < 0.15	9,765	133,702	39.7	62,818	0.07	1,629,479	104.7		2,878	5	46	
0.15 to < 0.25	1,864	10,892	45.0	6,761	0.22	170,959	104.2		821	12	16	
0.25 to < 0.50	4,646	17,885	33.2	10,579	0.39	206,715	100.1		1,942	18	41	
0.50 to < 0.75	1,955	4,028	48.4	3,904	0.60	63,265	101.8		1,018	26	24	
0.75 to < 2.50	6,543	10,973	33.2	10,189	1.44	115,471	98.8		5,001	49	145	
2.50 to < 10.00	4,142	2,857	60.4	5,868	4.72	61,301	99.1		6,699	114	275	
10.00 to < 100.00	1,475	422	122.2	1,991	29.10	20,857	99.4		4,004	201	560	
100.00 (Default)	52	-	-	52	100.00	713	93.4		-	-	48	
<b>Sub-total</b>	<b>30,442</b>	<b>180,759</b>	<b>39.7</b>	<b>102,162</b>	<b>1.15</b>	<b>2,268,760</b>	<b>103.1</b>		<b>22,363</b>	<b>22</b>	<b>1,155</b>	<b>2,872</b>
<b>Retail – residential mortgage exposures</b>												
0.00 to < 0.15	159,229	-	-	159,229	0.04	75,295	10.0		27,080	17	6	
0.15 to < 0.25	7,763	-	-	7,763	0.19	4,423	10.0		1,557	20	1	
0.25 to < 0.50	6,166	-	-	6,166	0.35	3,468	10.0		1,350	22	2	
0.50 to < 0.75	1,917	-	-	1,917	0.58	1,189	10.0		431	22	1	
0.75 to < 2.50	30,970	-	-	30,970	1.65	14,560	10.0		6,144	20	51	
2.50 to < 10.00	1,204	-	-	1,204	3.06	962	10.0		304	25	4	
10.00 to < 100.00	231	-	-	231	14.54	208	10.0		119	52	3	
100.00 (Default)	151	-	-	151	100.00	79	10.1		-	-	15	
<b>Sub-total</b>	<b>207,631</b>	<b>-</b>	<b>-</b>	<b>207,631</b>	<b>0.41</b>	<b>100,184</b>	<b>10.0</b>		<b>36,985</b>	<b>18</b>	<b>83</b>	<b>-</b>
<b>Retail – small business retail exposures</b>												
0.00 to < 0.15	2,706	-	-	2,706	0.06	977	4.2		19	1	-	
0.15 to < 0.25	245	-	-	245	0.17	61	13.8		12	5	-	
0.25 to < 0.50	1	-	-	1	0.39	1	41.9		-	-	-	
0.50 to < 0.75	529	-	-	529	0.52	178	5.8		22	4	-	
0.75 to < 2.50	476	-	-	476	1.15	196	6.3		32	7	-	
2.50 to < 10.00	381	-	-	381	5.36	142	3.7		21	6	1	
10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
<b>Sub-total</b>	<b>4,338</b>	<b>-</b>	<b>-</b>	<b>4,338</b>	<b>0.71</b>	<b>1,555</b>	<b>5.1</b>		<b>106</b>	<b>2</b>	<b>1</b>	<b>-</b>
<b>Other retail exposures to individuals</b>												
0.00 to < 0.15	2,834	2,167	9.8	3,046	0.08	27,202	12.2		84	3	-	
0.15 to < 0.25	1,555	2,348	15.7	1,924	0.21	23,563	15.0		118	6	1	
0.25 to < 0.50	799	1,208	17.4	1,010	0.46	13,994	50.9		335	33	2	
0.50 to < 0.75	4,187	15	23.9	4,190	0.53	18,656	61.1		1,909	46	14	
0.75 to < 2.50	4,229	1,186	25.4	4,531	1.55	29,073	53.2		2,916	64	41	
2.50 to < 10.00	3,572	244	30.1	3,646	4.59	26,257	64.1		3,421	94	111	
10.00 to < 100.00	744	27	56.8	759	15.82	7,161	65.3		965	127	79	
100.00 (Default)	15	-	-	15	100.00	396	170.8		-	-	25	
<b>Sub-total</b>	<b>17,935</b>	<b>7,195</b>	<b>16.5</b>	<b>19,121</b>	<b>2.12</b>	<b>146,302</b>	<b>47.1</b>		<b>9,748</b>	<b>51</b>	<b>273</b>	<b>592</b>

Table 20.3: CR6 – 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 2018	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 <sup>^</sup>
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Total (all portfolios)	1,139,321	436,459	34.1	1,288,006	0.70	2,524,222	36.1	1.81*	369,555	29	4,123	6,404

\*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.

<sup>^</sup> Provisions include specific provisions, regulatory reserve for general banking risks and collective provisions.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 21: CR10 – Specialised lending under supervisory slotting criteria approach – other than high-volatility commercial real estate ("HVCRE")

As at 30 Jun 2018

Supervisory Rating Grade	Remaining Maturity	a	b	c	d(i)	d(ii)	d(iii)	d(iv)	d(v)	e	f	
		On- balance sheet exposure amount HK\$m	Off- balance sheet exposure amount HK\$m	Supervi- sory risk- weighted ("SRW") %	EAD amount					Total HK\$m	RWA HK\$m	Expected loss amount HK\$m
					Project finance ("PF") HK\$m	Object finance ("OF") HK\$m	Commo- dities finance ("CF") HK\$m	Income- producing real estate ("IPRE") HK\$m				
Strong <sup>^</sup>	Less than 2.5 years	3,289	100	50%	-	-	-	3,330	3,330	1,665	-	
Strong	Less than 2.5 years	1,171	183	70%	-	-	-	1,217	1,217	852	5	
Strong	Equal to or more than 2.5 years	2,142	382	70%	-	-	-	2,300	2,300	1,610	9	
Good <sup>^</sup>	Less than 2.5 years	19	2	70%	-	-	-	20	20	14	-	
Good	Less than 2.5 years	1,798	26	90%	-	-	-	1,805	1,805	1,624	14	
Good	Equal to or more than 2.5 years	828	918	90%	-	-	-	1,143	1,143	1,028	9	
Satisfactory		1,161	11	115%	-	-	-	1,166	1,166	1,341	33	
Weak		-	-	250%	-	-	-	-	-	-	-	
Default		-	-	0%	-	-	-	-	-	-	-	
<b>Total</b>		<b>10,408</b>	<b>1,622</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>10,981</b>	<b>10,981</b>	<b>8,134</b>	<b>70</b>	

<sup>^</sup> Use of preferential risk-weights.

Table 22: CR10 – Equity exposures under the simple risk-weight method

As at 30 Jun 2018

Categories	a	b	c	d	e
	On-balance sheet exposure amount HK\$m	Off-balance sheet exposure amount HK\$m	SRW %	EAD amount HK\$m	RWA HK\$m
Publicly traded equity exposures	73	-	300%	73	218
All other equity exposures	3,737	-	400%	3,737	14,948
<b>Total</b>	<b>3,810</b>	<b>-</b>		<b>3,810</b>	<b>15,166</b>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Credit risk under standardised approach**

Table 23: CR5 – Credit risk exposures by asset classes and by risk weights – for STC approach

As at 30 Jun 2018		a	b	c	d	e	f	g	h	ha	i	j
Risk weight		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post 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	130	-	-	-	-	-	-	-	-	-	130
2	Public sector entity ("PSE") exposures	15,990	-	5,494	-	84	-	-	-	-	-	21,568
2a	<i>Of which: Domestic PSEs</i>	-	-	3,466	-	-	-	-	-	-	-	3,466
2b	<i>Of which: Foreign PSEs</i>	15,990	-	2,028	-	84	-	-	-	-	-	18,102
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	33	-	3	-	-	-	-	-	36
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	392	-	43,682	-	-	-	44,074
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	-	-	-	-	-	4,230	-	-	-	-	4,230
11	Residential mortgage loans	-	-	-	21,702	-	426	2,317	-	-	-	24,445
12	Other exposures which are not past due exposures	-	-	-	-	-	-	5,743	-	-	-	5,743
13	Past due exposures	2	-	-	-	-	-	8	273	-	-	283
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	<b>Total</b>	<b>16,122</b>	<b>-</b>	<b>5,527</b>	<b>21,702</b>	<b>479</b>	<b>4,656</b>	<b>51,750</b>	<b>273</b>	<b>-</b>	<b>-</b>	<b>100,509</b>



**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Credit risk mitigation**

Table 24: 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 2018	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 Loans	334,428	624,664	461,537	133,734	-
2 Debt securities	295,088	2,072	-	2,026	-
3 <b>Total</b>	<b>629,516</b>	<b>626,736</b>	<b>461,537</b>	<b>135,760</b>	-
4 <i>of which: Defaulted</i>	<i>1,057</i>	<i>837</i>	<i>452</i>	<i>1</i>	-

Table 25: 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 2018	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)	8,134	8,134
5 Corporate – Specialised lending (high-volatility commercial real estate)	-	-
6 Corporate – Small-and-medium sized corporates	50,467	50,467
7 Corporate – Other corporates	224,733	224,733
8 Sovereigns	6,136	6,136
9 Sovereign foreign public sector entities	-	-
10 Multilateral development banks	2,040	2,040
11 Bank exposures – Banks	16,643	16,643
12 Bank exposures – Securities firms	334	334
13 Bank exposures – Public sector entities (excluding sovereign foreign public sector entities)	-	-
14 Retail – Small business retail exposures	106	106
15 Retail – Residential mortgages to individuals	35,888	35,888
16 Retail – Residential mortgages to property-holding shell companies	1,097	1,097
17 Retail – Qualifying revolving retail exposures	22,363	22,363
18 Retail – Other retail exposures to individuals	9,748	9,748
19 Equity – Equity exposures under market-based approach (simple risk-weight method)	15,166	15,166
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 investment)	-	-
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	488	488
27 Other – Other items	38,400	38,400
28 <b>Total (under the IRB calculation approaches)</b>	<b>431,743</b>	<b>431,743</b>

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

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 26: CR4 – Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

	a	b	c	d	e	f
	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
As at 30 Jun 2018	On-balance sheet amount HK\$m	Off-balance sheet amount HK\$m	On-balance sheet amount HK\$m	Off-balance sheet amount HK\$m	RWA HK\$m	RWA density %
<b>Exposure classes</b>						
1 Sovereign exposures	-	-	128	2	-	-
2 PSE exposures	20,673	1,840	20,673	895	1,141	5
2a <i>Of which: Domestic PSEs</i>	2,571	1,840	2,571	895	693	20
2b <i>Of which: Foreign PSEs</i>	18,102	-	18,102	-	448	2
3 Multilateral development bank exposures	-	-	-	-	-	-
4 Bank exposures	36	-	36	-	8	23
5 Securities firm exposures	-	-	-	-	-	50
6 Corporate exposures	44,261	20,033	41,677	2,397	43,878	100
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	4,868	8,813	4,221	9	3,173	75
11 Residential mortgage loans	23,647	4,273	23,590	855	10,232	42
12 Other exposures which are not past due exposures	13,161	7,159	5,578	165	5,743	100
13 Past due exposures	283	-	283	-	418	148
14 Significant exposures to commercial entities	-	-	-	-	-	-
<b>15 Total</b>	<b>106,929</b>	<b>42,118</b>	<b>96,186</b>	<b>4,323</b>	<b>64,593</b>	<b>64</b>

**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

**Counterparty credit risk exposures**

**Counterparty default risk exposures**

Counterparty credit risk ("CCR") arises for derivatives and securities financing transactions ("SFTs"). It is calculated in both the trading and non-trading books, and is the risk that a counterparty may default before settlement of the transaction. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default. CCR is generated primarily in our wholesale global businesses.

Table 27: 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 ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA
As at 30 Jun 2018	HK\$m	HK\$m	HK\$m		HK\$m	HK\$m
1 SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a CEM	2,712	8,663		N/A	11,375	3,161
2 IMM (CCR) approach			-	-	-	-
3 Simple Approach (for SFTs)					-	-
4 Comprehensive Approach (for SFTs)					742	80
5 VaR for SFTs					-	-
<b>6 Total</b>						<b>3,241</b>

Table 28: CCR2 – CVA capital charge

	a	b
	EAD post-CRM	RWA
As at 30 Jun 2018	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	11,038	1,982
<b>4 Total</b>	<b>11,038</b>	<b>1,982</b>

**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

Table 29: 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 received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
As at 30 Jun 2018	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 Cash – domestic currency	-	29	-	55	-	-
2 Cash – other currencies	-	460	-	48	5,796	3,172
3 Domestic sovereign debt	-	-	-	-	-	-
4 Other sovereign debt	-	-	-	-	3,128	6,494
5 Government agency debt	-	-	-	-	-	-
6 Corporate bonds	-	-	-	-	-	-
7 Equity securities	-	-	-	-	-	-
8 Other collateral	-	-	-	-	-	-
<b>9 Total</b>	-	<b>489</b>	-	<b>103</b>	<b>8,924</b>	<b>9,666</b>

Table 30: CCR8 – Exposures to CCPs

	a	b
	Exposure after CRM	RWA
	HK\$m	HK\$m
As at 30 Jun 2018		
<b>1 Exposures of the AI as clearing member or client to qualifying CCPs (total)</b>		<b>18</b>
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	684	14
3 (i) Over-the-counter ("OTC") derivative transactions	684	14
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	103	2
9 Funded default fund contributions	50	2
10 Unfunded default fund contributions	-	-
<b>11 Exposures of the AI as clearing member or client to non-qualifying CCPs (total)</b>		<b>-</b>
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)

**Counterparty default risk under internal ratings-based approach**

Table 31: 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
	EAD post- CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
As at 30 Jun 2018	HK\$m	%		%	years	HK\$m	%
<b>Sovereign</b>							
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)	-	-	-	-	-	-	-
<b>Sub-total</b>	-	-	-	-	-	-	-
<b>Bank</b>							
0.00 to < 0.15	9,574	0.05	106	36.5	1.22	1,269	13
0.15 to < 0.25	315	0.22	8	34.0	1.00	102	32
0.25 to < 0.50	223	0.37	4	45.0	0.55	115	52
0.50 to < 0.75	217	0.63	2	45.0	1.00	166	77
0.75 to < 2.50	471	0.88	3	45.0	1.03	420	89
2.50 to < 10.00	-	-	-	-	-	-	-
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Sub-total</b>	10,800	0.11	123	37.2	1.19	2,072	19
<b>Corporates</b>							
0.00 to < 0.15	96	0.09	19	49.5	2.99	31	33
0.15 to < 0.25	120	0.22	13	52.4	1.17	47	39
0.25 to < 0.50	135	0.37	23	52.2	1.01	69	51
0.50 to < 0.75	131	0.63	13	51.7	1.09	89	68
0.75 to < 2.50	283	1.42	50	57.0	1.45	322	114
2.50 to < 10.00	161	3.67	15	54.7	1.12	231	143
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Sub-total</b>	926	1.25	133	53.8	1.40	789	85
<b>Retail</b>							
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)	-	-	-	-	-	-	-
<b>Sub-total</b>	-	-	-	-	-	-	-
<b>Total (sum of all portfolios)</b>	<b>11,726</b>	<b>0.20</b>	<b>256</b>	<b>38.5</b>	<b>1.20</b>	<b>2,861</b>	<b>24</b>

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

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Counterparty default risk under standardised approach**

Table 32: CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

As at 30 Jun 2018		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	-	-	5	-	-	-	-	-	-	-	5
2a	<i>Of which: Domestic PSEs</i>	-	-	5	-	-	-	-	-	-	-	5
2b	<i>Of which: Foreign PSEs</i>	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	-	-	-	-	-	-	-	-	-
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	361	-	-	-	361
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	25	-	-	-	-	25
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	<b>Total</b>	-	-	5	-	-	25	361	-	-	-	391

**BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)***Market risk****Market risk under standardised approach**

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 33: MR1 – Market risk under STM approach

		a
		RWA HK\$m
As at 30 Jun 2018		
<b>Outright product exposures</b>		
1	Interest rate exposures (general and specific risk)	29
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	-
4	Commodity exposures	-
<b>Option exposures</b>		
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitisation exposures	-
9	<b>Total</b>	<b>29</b>

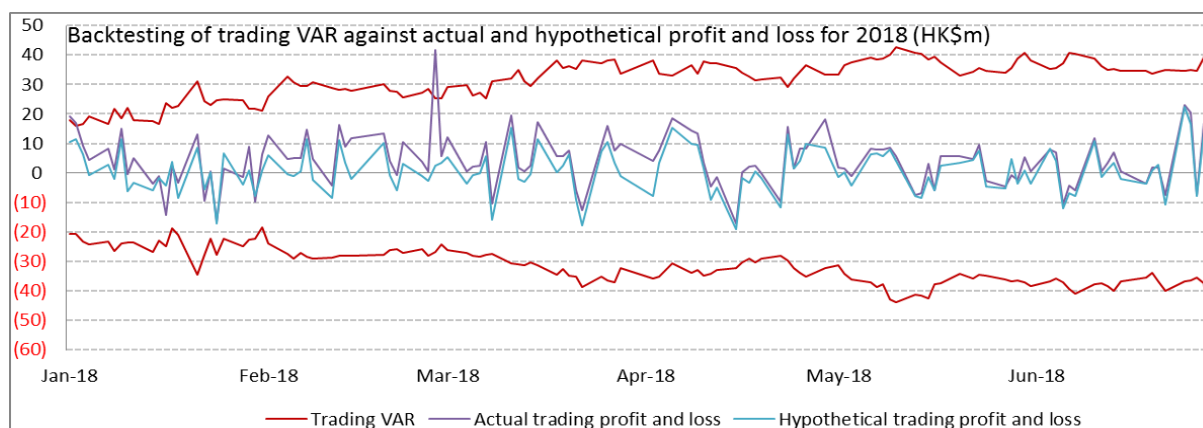
**BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

**Analysis of VaR, stressed VaR and incremental risk charge measures**

Table 34: MR3 – IMM approach values for market risk exposures

	a
	Value
	HK\$m
As at 30 Jun 2018	
<b>VaR (10 days – one-tailed 99% confidence interval)</b>	
1 Maximum Value	151
2 Average Value	101
3 Minimum Value	59
4 Period End	151
<b>Stressed VaR (10 days – one-tailed 99% confidence interval)</b>	
5 Maximum Value	253
6 Average Value	183
7 Minimum Value	133
8 Period End	238
<b>Incremental risk charge ("IRC") (99.9% confidence interval)</b>	
9 Maximum value	-
10 Average value	-
11 Minimum value	-
12 Period end	-
<b>Comprehensive risk charge ("CRC") (99.9% confidence interval)</b>	
13 Maximum value	-
14 Average value	-
15 Minimum value	-
16 Period end	-
17 Floor	-

Table 35: 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 in the first half of 2018. 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.

Remark: One loss side exception was observed in December 2017 due to exceptional market volatility approaching the end of the year.



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Liquidity information

The Banking (Liquidity) Rules ("BLR") were introduced by the HKMA in 2014 and became effective from 1 January 2015. The Group is required to calculate its Liquidity Coverage Ratio ("LCR") on a consolidated basis in accordance with rule 11(1) of the BLR. During 2018, the Group is required to maintain a LCR of not less than 90%, increasing in steps of 10% each year to not less than 100% by January 2019.

The average LCRs for the periods are as follows:

	Quarter ended	
	30 Jun 2018	31 Mar 2018
	%	%
Average liquidity coverage ratio	209.6	207.0

In accordance with the BLR, the Net Stable Funding Ratio ("NSFR") is implemented in Hong Kong with effect from 1 January 2018 and the Group is required to calculate its NSFR on a consolidated basis. During 2018, the Group is required to maintain a NSFR of not less than 100%.

The NSFRs for the reportable periods are as follows:

	Quarter ended	
	30 Jun 2018	31 Mar 2018
	%	%
Net stable funding ratio	153.6	152.9

The liquidity position and funding position of the Group remained strong for the first half of 2018. The average LCR were 209.6% and 207.0% for the quarters ended 30 June and 31 March 2018 respectively, compared with 256.7% and 267.7% for the quarters ended 30 June and 31 March 2017, respectively. The NSFR were 153.6% and 152.9% for the quarters ended 30 June and 31 March 2018, respectively.

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

	Weighted amount (average value) at quarter ended	
	30 Jun 2018	31 Mar 2018
	HK\$m	HK\$m
Level 1 assets	262,800	265,754
Level 2A assets	11,615	12,866
Level 2B assets	551	552
<b>Total weighted amount of HQLA</b>	<b>274,966</b>	<b>279,172</b>

#### Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We issue wholesale securities (secured and unsecured) to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

#### 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 by currency for all material currencies based on liquidity in the swap markets. These limits are approved and monitored by 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 International Swaps and Derivatives Association ("ISDA") compliant Credit support annex ("CSA") contracts), in the event of one-notch and two-notch downgrade in credit ratings, the additional collateral required to post is immaterial.

A summary of the Group's current policies and practices for the management of liquidity and funding risk is set out in 'Liquidity and funding risk' section on page 57 to 61 of the Group's Annual Report 2017.

**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 table for the quarters ending on 30 June and 31 March 2018: (73 and 72 data points respectively)

Table 39: LIQ1 – Liquidity coverage ratio – for category 1 institution

		Quarter ended 30 Jun 2018 (73 data points)		Quarter ended 31 Mar 2018 (72 data points)	
		Unweighted amount (average value)	Weighted amount (average value)	Unweighted amount (average value)	Weighted amount (average value)
		HK\$m	HK\$m	HK\$m	HK\$m
Basis of disclosure: consolidated					
<b>A</b>	<b>High quality liquid assets</b>				
1	Total high quality liquid assets ("HQLA")		274,966		279,172
<b>B</b>	<b>Cash outflows</b>				
2	Retail deposits and small business funding, of which:	801,016	65,057	791,381	64,304
3	<i>Stable retail deposits and stable small business funding</i>	214,920	6,447	211,920	6,358
4	<i>Less stable retail deposits and less stable small business funding</i>	586,096	58,610	579,461	57,946
4a	<i>Retail term deposits and small business term funding</i>	-	-	-	-
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	276,769	117,987	270,237	117,019
6	<i>Operational deposits</i>	61,360	14,609	64,545	15,403
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	215,409	103,378	205,692	101,616
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	-	-	-	-
9	Secured funding transactions (including securities swap transactions)		-		7
10	Additional requirements, of which:	79,075	13,201	74,889	13,002
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	6,047	5,786	6,100	6,016
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	566	566	503	503
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	72,462	6,849	68,286	6,483
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	23,042	23,042	20,978	20,978
15	Other contingent funding obligations (whether contractual or non-contractual)	400,096	1,503	386,112	1,463
16	Total cash outflows		220,790		216,773
<b>C</b>	<b>Cash inflows</b>				
17	Secured lending transactions (including securities swap transactions)	87	-	-	-
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	120,024	69,805	108,339	61,874
19	Other cash inflows	28,676	19,445	27,239	19,462
20	Total cash inflows	148,787	89,250	135,578	81,336
<b>D</b>	<b>Liquidity coverage ratio (adjusted value)</b>				
21	Total HQLA		274,966		279,172
22	Total net cash outflows		131,540		135,437
23	LCR (%)		209.6%		207.0%

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 40: LIQ2 – Net stable funding ratio – for category 1 institution

Basis of disclosure: consolidated	Quarter ended 30 Jun 2018				
	Unweighted value by residual maturity				Weighted amount
	No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
<b>A. Available stable funding (“ASF”) item</b>					
1 Capital:	137,484	-	-	-	137,484
2 <i>Regulatory capital</i>	137,484	-	-	-	137,484
2a <i>Minority interests not covered by row 2</i>	-	-	-	-	-
3 <i>Other capital instruments</i>	-	-	-	-	-
4 Retail deposits and small business funding:	-	819,350	-	-	748,164
5 <i>Stable deposits</i>	-	214,979	-	-	204,230
6 <i>Less stable deposits</i>	-	604,371	-	-	543,934
7 Wholesale funding:	-	367,128	11,209	12,980	170,587
8 <i>Operational deposits</i>	-	62,798	-	-	31,399
9 <i>Other wholesale funding</i>	-	304,330	11,209	12,980	139,188
10 Liabilities with matching interdependent assets	-	-	-	-	-
11 Other liabilities:	18,835	18,741	516	2,003	2,261
12 <i>Net derivative liabilities</i>	-	-	-	-	-
13 <i>All other funding and liabilities not included in the above categories</i>	18,835	18,741	516	2,003	2,261
14 <b>Total ASF</b>					<b>1,058,496</b>
<b>B. Required stable funding (“RSF”) item</b>					
15 Total HQLA for NSFR purposes	-	290,646	-	-	7,842
16 Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17 Performing loans and securities:	37,459	309,538	94,761	567,715	619,523
18 <i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	3,173	-	-	317
19 <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	12	96,919	5,721	4,044	21,454
20 <i>Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:</i>	34,577	168,894	72,552	305,621	409,703
21 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>	13	6,130	51	867	3,650
22 <i>Performing residential mortgages, of which:</i>	-	6,235	6,671	243,158	178,079
23 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>	-	4,601	4,597	175,293	118,540
24 <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	2,870	34,317	9,817	14,892	9,970
25 Assets with matching interdependent liabilities	-	-	-	-	-
26 Other assets:	69,054	18,887	96	1,167	58,330
27 <i>Physical traded commodities, including gold</i>	4,284	-	-	-	3,641
28 <i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	1,007	-	-	-	856
29 <i>Net derivative assets</i>	515	-	-	-	515
30 <i>Total derivative liabilities before deduction of variation margin posted</i>	3,921	-	-	-	N/A
31 <i>All other assets not included in the above categories</i>	59,327	18,887	96	1,167	53,318
32 Off-balance sheet items	-	-	-	479,398	3,640
33 <b>Total RSF</b>					<b>689,335</b>
34 <b>Net Stable Funding Ratio (%)</b>					<b>153.6%</b>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 40: LIQ2 – Net stable funding ratio – for category 1 institution (continued)

Basis of disclosure: consolidated	Quarter ended 31 Mar 2018				Weighted amount HK\$m
	Unweighted value by residual maturity				
	No specified term to maturity HK\$m	<6 months or repayable on demand HK\$m	6 months to < 12 months HK\$m	12 months or more HK\$m	
<b>A. Available stable funding (“ASF”) item</b>					
1 Capital:	134,705	-	-	-	134,705
2 <i>Regulatory capital</i>	134,705	-	-	-	134,705
2a <i>Minority interests not covered by row 2</i>	-	-	-	-	-
3 <i>Other capital instruments</i>	-	-	-	-	-
4 Retail deposits and small business funding:	-	801,236	-	-	731,751
5 <i>Stable deposits</i>	-	212,773	-	-	202,134
6 <i>Less stable deposits</i>	-	588,463	-	-	529,617
7 Wholesale funding:	-	353,752	14,117	12,980	158,090
8 <i>Operational deposits</i>	-	67,218	-	-	33,609
9 <i>Other wholesale funding</i>	-	286,534	14,117	12,980	124,481
10 Liabilities with matching interdependent assets	-	-	-	-	-
11 Other liabilities:	21,493	18,089	560	492	772
12 <i>Net derivative liabilities</i>	-	-	-	-	-
13 <i>All other funding and liabilities not included in the above categories</i>	21,493	18,089	560	492	772
14 <b>Total ASF</b>					<b>1,025,318</b>
<b>B. Required stable funding (“RSF”) item</b>					
15 Total HQLA for NSFR purposes		291,053			8,191
16 Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17 Performing loans and securities:	36,234	298,603	83,949	557,365	602,546
18 <i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	-	-	-	-
19 <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	7	85,286	4,174	2,971	17,858
20 <i>Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:</i>	32,669	170,249	63,368	300,187	399,553
21 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>	8	9,041	53	847	5,092
22 <i>Performing residential mortgages, of which:</i>	-	6,118	6,319	238,838	174,478
23 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>	-	4,657	4,614	173,763	117,581
24 <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	3,558	36,950	10,088	15,369	10,657
25 Assets with matching interdependent liabilities	-	-	-	-	-
26 Other assets:	71,475	21,683	117	1,044	55,980
27 <i>Physical traded commodities, including gold</i>	3,230	-	-	-	2,745
28 <i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	859	-	-	-	730
29 <i>Net derivative assets</i>	543	-	-	-	543
30 <i>Total derivative liabilities before deduction of variation margin posted</i>	6,969	-	-	-	N/A
31 <i>All other assets not included in the above categories</i>	59,874	21,683	117	1,044	51,962
32 Off-balance sheet items	-	-	-	472,174	3,690
33 <b>Total RSF</b>					<b>670,407</b>
34 <b>Net Stable Funding Ratio (%)</b>					<b>152.9%</b>

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Other disclosures

#### Mainland activities exposures

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 41: Mainland activities exposures

	On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	Total exposures HK\$m
As at 30 Jun 2018			
<b>Type of Counterparties</b>			
1 Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	53,094	6,891	59,985
2 Local governments, local government-owned entities and their subsidiaries and JVs	17,319	2,900	20,219
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	87,188	30,716	117,904
4 Other entities of central government not reported in item 1 above	6,294	947	7,241
5 Other entities of local governments not reported in item 2 above	4,236	922	5,158
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	32,336	1,033	33,369
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	15,056	643	15,699
<b>Total</b>	<b>215,523</b>	<b>44,052</b>	<b>259,575</b>
<b>Total assets after provision</b>	<b>1,406,668</b>		
<b>On-balance sheet exposures as percentage of total assets</b>	<b>15.32%</b>		

On-balance sheet exposures as percentage of total assets remained stable as compared with 2017 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 42: International claims

	Banks HK\$m	Official Sector HK\$m	Non Bank Financial Institution HK\$m	Non-Financial Private Sector HK\$m	Others HK\$m	Total HK\$m
As at 30 Jun 2018						
Developed countries	59,519	39,141	15,461	45,673	-	159,794
Offshore centres	11,388	9,004	4,755	130,784	-	155,931
of which : Hong Kong SAR	5,306	1,338	4,201	113,585	-	124,430
Developing Asia and Pacific	78,357	8,998	8,508	50,659	-	146,522
of which : China	49,648	8,928	7,642	43,046	-	109,264

At 30 June 2018, 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)

### 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 structural foreign exchange exposure, monitored using sensitivity analysis, represents the Group's foreign currency investments in subsidiaries, branches and associates, and the fair value of the Group's certain long-term foreign currency equity investments. The Group's structural foreign exchange exposures are managed by the Group's Asset and Liability Management Committee ("ALCO") with the primary objective of ensuring, where practical, that the Group's and the Bank's capital ratios are largely protected from the effect of changes in exchange rates.

The Group's foreign exchange exposures in the table below is prepared in accordance with the HKMA "Return of Foreign Currency Position - (MA(BS)6)".

At 30 June 2018, the US dollar ("USD") and Chinese renminbi ("RMB") were the currencies in which the Group had non-structural foreign currency positions that were not less than 10% of the total net position in all foreign currencies. The Group also had a RMB structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

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

Table 43: Foreign exchange exposure

	USD HK\$m	RMB HK\$m	Other foreign currencies HK\$m	Total foreign currencies HK\$m
As at 30 Jun 2018				
Non-structural position				
Spot assets	211,171	109,319	116,688	437,178
Spot liabilities	(191,214)	(114,629)	(70,335)	(376,178)
Forward purchases	406,572	134,514	34,965	576,051
Forward sales	(423,787)	(129,905)	(81,204)	(634,896)
Net options position	122	(162)	(49)	(89)
Net long/(short) non-structural position	2,864	(863)	65	2,066
Structural position	-	15,154	1,209	16,363

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Other information**
**Abbreviations**

A	
AI	Authorised institution
ALCO	Asset and Liability Management Committee
ASF	Available stable funding
AT1	Additional tier 1
B	
Bank	Hang Seng Bank Limited
BCBS	Basel Committee on Banking Supervision
BCR	Banking (Capital) Rules
BDAR	Banking (Disclosure) (Amendment) Rules 2018
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules
BSC	Basic approach
C	
CCF	Credit conversion factor
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CEM	Current exposure method
CET1	Common equity tier 1
CF	Commodities finance
CFR	Core funding ratio
CIS	Collective investment scheme
CRC	Comprehensive risk charge
CRM	Credit risk mitigation
CSA	Credit support annex
CVA	Credit valuation adjustment
D	
D-SIB	Domestic systemically important authorised institution
DTAs	Deferred tax assets
E	
EAD	Exposure at default
EL	Expected loss
EPE	Expected positive exposure
F	
FBA	Fall-back approach
G	
G-SIB Group	Global systemically important authorised institution Hang Seng Bank Limited together with its subsidiaries
H	
HK\$bn	Billions (thousands of millions) of Hong Kong dollars
HK\$m	Millions of Hong Kong dollars
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards
HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
HQLA	High quality liquid assets
HVCRE	High-volatility commercial real estate
I	
IMM	Internal models approach
IMM(CCR)	Internal models (counterparty credit risk) approach
IPRE	Income-producing real estate
IRB	Internal ratings-based approach
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association

J	
J	Jurisdiction
JCCyB	Jurisdictional countercyclical capital buffer
JVs	Joint ventures
L	
LCR	Liquidity coverage ratio
LGD	Loss given default
LMR	Liquidity maintenance ratio
LR	Leverage ratio
LTA	Look through approach
M	
MBA	Mandate-based approach
MSRs	Mortgage servicing rights
N	
N/A	Not applicable
NSFR	Net stable funding ratio
O	
OBS	Off-balance sheet
OF	Object finance
OTC	Over-the-counter
P	
P&L	Profit and loss
PD	Probability of default
PF	Project finance
PFE	Potential future exposure
PRC	People's Republic of China
PSE	Public sector entity
PVIF	Present value of in-force long-term insurance business
Q	
QRRE	Qualifying revolving retail exposures
R	
RC	Replacement cost
RMB	Renminbi
RMM	Risk Management Meeting
RW	Risk-weight
RWA	Risk-weighted asset/risk-weighted amount
S	
SA-CCR	Standardised approach for counterparty credit risk
SEC-ERBA	Securitisation external ratings-based approach
SEC-FBA	Securitisation fall-back approach
SEC-IRBA	Securitisation internal ratings-based approach
SEC-SA	Securitisation standardised approach
SFT	Securities financing transaction
SRW	Supervisory risk-weighted
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach
T	
T1	Tier1
T2	Tier2
U	
USD	US dollar
V	
VaR	Value at risk