



恒生銀行
HANG SENG BANK

Banking Disclosure Statement

31 March 2019

(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.

The approaches used in calculating the Group's regulatory capital and risk-weighted assets ("RWA") are in accordance with the Banking (Capital) Rules ("BCR"). The Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For counterparty credit risk, the Group uses the current exposure method to calculate its default risk exposures. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

The Banking Disclosure Statement

The Group's Banking Disclosure Statement at 31 March 2019 comprises information required under Pillar 3. The disclosures are made in accordance with the latest BDR issued by the Hong Kong Monetary Authority ("HKMA").

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.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
	Footnotes	31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ("CET1")	102,947	101,724	100,320	97,542	95,632
2	Tier 1	109,928	108,705	107,301	104,523	102,613
3	Total capital	123,574	123,307	121,299	118,100	116,016
RWA (HK\$m)						
4	Total RWA	627,076	611,885	602,711	601,549	600,727
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.4	16.6	16.6	16.2	15.9
6	Tier 1 ratio (%)	17.5	17.8	17.8	17.4	17.1
7	Total capital ratio (%)	19.7	20.2	20.1	19.6	19.3
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500	1.875	1.875	1.875	1.875
9	Countercyclical capital buffer ("CCyB") requirement (%)	2.053	1.550	1.661	1.651	1.626
10	Higher loss absorbency requirements (%) (applicable only to Global systemically important authorised institutions ("G-SIBs") or Domestic systemically important authorised institutions ("D-SIBs"))	1.500	1.125	1.125	1.125	1.125
11	Total AI-specific CET1 buffer requirements (%)	6.053	4.550	4.661	4.651	4.626
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.5	11.8	11.8	11.4	11.1
Basel III leverage ratio						
13	Total leverage ratio ("LR") exposure measure (HK\$m)	1,486,257	1,477,001	1,418,636	1,444,966	1,415,190
14	LR (%)	7.4	7.4	7.6	7.2	7.3
Liquidity Coverage Ratio ("LCR")						
15	Total high quality liquid assets ("HQLA") (HK\$m)	321,198	293,081	280,177	274,966	279,172
16	Total net cash outflows (HK\$m)	153,066	140,330	135,029	131,540	135,437
17	LCR (%)	210.8	209.1	208.2	209.6	207.0
Net Stable Funding Ratio ("NSFR")						
18	Total available stable funding (HK\$m)	1,076,544	1,076,646	1,038,035	1,058,496	1,025,318
19	Total required stable funding (HK\$m)	716,178	699,089	689,787	689,335	670,407
20	NSFR (%)	150.3	154.0	150.5	153.6	152.9

- 1 The regulatory capital, RWA, risk-based regulatory capital ratios and additional CET1 buffer requirements above are based on or derived from the information as 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.
- 2 The Basel III leverage ratios are disclosed 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.
- 3 The LCR 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").
- 4 The NSFR 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.

Effective from 1 January 2019, the capital conservation buffer requirement and the jurisdictional CCyB of Hong Kong used in calculation of the CCyB requirement increased from 1.875% to 2.5% in accordance with the phase-in arrangement set out by the HKMA. The higher loss absorbency requirement also increased from 1.125% to 1.5%.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Capital and risk-weighted assets

Leverage ratio

The following table shows the leverage ratio, Tier 1 capital and total exposure measure as contained in the "Leverage Ratio" return submitted to the HKMA under the requirements specified in Part 1C of the BCR.

Table 2: LR2 – Leverage ratio

	a	b
	31 Mar 2019	31 Dec 2018
	HK\$m	HK\$m
On-balance sheet exposures		
1 On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions ("SFTs"), but including collateral)	1,413,496	1,417,917
2 Less: Asset amounts deducted in determining Tier 1 capital	(31,290)	(32,258)
3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)	1,382,206	1,385,659
Exposures arising from derivative contracts		
4 Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	4,276	3,771
5 Add-on amounts for potential future exposure ("PFE") associated with all derivative contracts	12,193	10,544
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 central counterparty ("CCP") 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	-	-
11 Total exposures arising from derivative contracts	16,469	14,315
Exposures arising from SFTs		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	7,238	461
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14 Counterparty credit risk ("CCR") exposure for SFT assets	514	50
15 Agent transaction exposures	-	-
16 Total exposures arising from SFTs	7,752	511
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	496,468	487,873
18 Less: Adjustments for conversion to credit equivalent amounts	(413,651)	(408,609)
19 Off-balance sheet items	82,817	79,264
Capital and total exposures		
20 Tier 1 capital	109,928	108,705
20a Total exposures before adjustments for specific and collective provisions	1,489,244	1,479,749
20b Adjustments for specific and collective provisions	(2,987)	(2,748)
21 Total exposures after adjustments for specific and collective provisions	1,486,257	1,477,001
Leverage ratio		
22 Leverage ratio	7.4%	7.4%

BANKING DISCLOSURE STATEMENT (unaudited) (continued)
Overview of the minimum capital requirements and RWA

Table 3: OV1 – Overview of RWA

	a	b	c
	RWA ¹		Minimum capital requirements ²
	31 Mar 2019	31 Dec 2018	31 Mar 2019
	HK\$m	HK\$m	HK\$m
1 Credit risk for non-securitisation exposures	500,767	490,027	42,160
2 <i>Of which: Standardised credit risk ("STC") approach</i>	63,600	62,793	5,088
2a <i>Of which: Basic ("BSC") approach</i>	-	-	-
3 <i>Of which: Foundation internal ratings-based ("IRB") approach</i>	-	-	-
4 <i>Of which: Supervisory slotting criteria approach</i>	11,459	8,725	972
5 <i>Of which: Advanced IRB approach</i>	425,708	418,509	36,100
6 Counterparty default risk and default fund contributions	2,876	2,663	242
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>	2,796	2,631	235
8 <i>Of which: Internal models (counterparty credit risk) ("IMM(CCR")) approach</i>	-	-	-
9 <i>Of which: Others</i>	80	32	7
10 Credit valuation adjustment ("CVA") risk	2,099	1,833	168
11 Equity positions in banking book under the simple risk-weight method and internal models method	20,311	14,848	1,722
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	-	1	-
16 Securitisation exposures in banking book	-	-	-
17 <i>Of which: Securitisation internal ratings-based ("SEC-IRBA") approach</i>	-	-	-
18 <i>Of which: Securitisation external ratings-based ("SEC-ERBA") approach (including internal assessment approach ("IAA"))</i>	-	-	-
19 <i>Of which: Securitisation standardised ("SEC-SA") approach</i>	-	-	-
19a <i>Of which: Securitisation fall-back ("SEC-FBA") approach</i>	-	-	-
20 Market risk	5,792	11,021	463
21 <i>Of which: Standardised market risk ("STM") approach</i>	77	38	6
22 <i>Of which: Internal models ("IMM") approach</i>	5,715	10,983	457
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	61,022	59,323	4,882
24a Sovereign concentration risk*	Not Applicable	Not Applicable	Not Applicable
25 Amounts below the thresholds for deduction (subject to 250% RW)	19,969	18,967	1,693
26 Capital floor adjustment	-	-	-
26a Deduction to RWA	(14,556)	(14,599)	(1,164)
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>	(14,556)	(14,599)	(1,164)
27 Total	598,280	584,084	50,166

1 RWA in this table are before the application of the 1.06 scaling factor, where applicable.

2 Minimum capital requirement represents the Pillar 1 capital charge at 8% of the RWA after application of the 1.06 scaling factor, where applicable.

3 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 RWA increased by HK\$14.2bn since last quarter. Credit risk RWA for non-securitisation exposures increased by HK\$10.7bn driven by loan growth. RWA on equity positions in banking book under the simple risk-weight method increased by HK\$5.5bn due to value appreciation on holdings. The movement was partly offset by a drop in market risk RWA of HK\$5.2bn mainly resulting from a decrease in Stressed Value at risk ("VaR"), driven by the change in Offshore Chinese Yuan ("CNH") interest rate trading positions.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

RWA flow statements

RWA flow statement for credit risk

Table 4: CR8 – RWA flow statement of credit risk¹ exposures under IRB approach

	a
	Amount HK\$m
1 RWA as at end of previous reporting period (31 Dec 2018)	427,234
2 Asset size	7,998
3 Asset quality	1,090
4 Model updates	-
5 Methodology and policy	1,389
6 Acquisitions and disposals	-
7 Foreign exchange movements	840
8 Other	(1,384)
9 RWA as at end of reporting period (31 Mar 2019)	437,167

¹ Credit risk in this table represents the credit risk for non-securitisation exposures excluding counterparty credit risk.

RWA increased by HK\$9.9bn during the first quarter of 2019 mainly due to HK\$8.0bn growth in asset size driven by loan growth and HK\$1.4bn increase under methodology and policy relating to the implementation of new accounting standard of HKFRS 16 "Leases" on 1 January 2019.

RWA flow statement for market risk

Table 5: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	d	e	f
	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 Dec 2018)	3,904	7,079	-	-	-	10,983
2 Movement in risk levels	(1,674)	(3,619)	-	-	-	(5,293)
3 Model updates/changes	-	-	-	-	-	-
4 Methodology and policy	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-
6 Foreign exchange movements	9	16	-	-	-	25
7 Other	-	-	-	-	-	-
8 RWA as at end of reporting period (31 Mar 2019)	2,239	3,476	-	-	-	5,715

The historical market data for CNH curves showed less volatility leading to a decrease in VaR. The drop in Stressed VaR was driven by the change in CNH interest rate trading positions.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Liquidity information

The BLR were introduced by the HKMA in 2014 and became effective from 1 January 2015. The Group is required to calculate its LCR on a consolidated basis in accordance with rule 11(1) of the BLR. From 1 January 2019, the Group is required to maintain an LCR of not less than 100%.

The average LCR for the period is as follows:

Table 6: Average liquidity coverage ratio

	Quarter ended
	31 Mar
	2019
	%
Average liquidity coverage ratio	210.8

The liquidity position of the Group remained strong for the first quarter of 2019.

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.

Table 7: Total weighted amount of high quality liquid assets

	Weighted value (average) for the quarter ended
	31 Mar
	2019
	HK\$m
Level 1 assets	309,073
Level 2A assets	11,577
Level 2B assets	548
Total weighted amount of HQLA	321,198

Sources of funding

Our primary sources of funding are customer deposits. We issue wholesale securities 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 Asset and Liability Management Committee ("ALCO").

Additional contractual obligations

Most of the Group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are 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 pages 69 to 73 of the Group's 2018 Annual Report.

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. Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarter ended on 31 March 2019 was 73.

Table 8: LIQ1 – Liquidity coverage ratio – for category 1 institution

		Quarter ended 31 Mar 2019 (73 data points)	
		a	b
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
A	High quality liquid assets		
1	Total high quality liquid assets ("HQLA")		321,198
B	Cash outflows		
2	Retail deposits and small business funding, of which:	846,344	69,499
3	<i>Stable retail deposits and stable small business funding</i>	216,221	6,487
4	<i>Less stable retail deposits and less stable small business funding</i>	630,123	63,012
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:	273,790	120,360
6	<i>Operational deposits</i>	57,071	13,498
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	215,370	105,513
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	1,349	1,349
9	Secured funding transactions (including securities swap transactions)		21
10	Additional requirements, of which:	72,618	10,202
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	3,020	3,020
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	595	595
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	69,003	6,587
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	22,205	22,205
15	Other contingent funding obligations (whether contractual or non-contractual)	422,955	2,240
16	Total cash outflows		224,527
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	515	-
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	99,851	55,991
19	Other cash inflows	26,335	15,470
20	Total cash inflows	126,701	71,461
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		321,198
22	Total net cash outflows		153,066
23	LCR (%)		210.8%

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

A	
ALCO	Asset and Liability Management Committee
B	
Bank	Hang Seng Bank Limited
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules
BSC	Basic approach
C	
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CEM	Current exposure method
CET1	Common equity tier 1
CIS	Collective investment scheme
CNH	Offshore Chinese Yuan
CRC	Comprehensive risk charge
CSA	Credit Support Annex
CVA	Credit valuation adjustment
D	
D-SIB	Domestic systemically important authorised institution
F	
FBA	Fall-back approach
G	
G-SIB	Global systemically important authorised institution
Group	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
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
I	
IAA	Internal assessment approach
IMM	Internal models approach
IMM(CCR)	Internal models (counterparty credit risk) approach
IRB	Internal ratings-based approach
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association

L	
LCR	Liquidity coverage ratio
LR	Leverage ratio
LTA	Look through approach
M	
MBA	Mandate-based approach
N	
N/A	Not applicable
NSFR	Net stable funding ratio
P	
PFE	Potential future exposure
R	
RW	Risk-weight
RWA	Risk-weighted asset(s)/risk-weighted amount(s)
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
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
V	
VaR	Value at risk