

Banking Disclosure Statement

30 September 2020

(Unaudited)

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 both the Banking (Disclosure) Rules ("BDR") made under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules ("LAC Rules") made under section 19(1) of the Financial Institutions (Resolution) Ordinance ("FIRO").

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.

For loss-absorbing capacity ("LAC") disclosures, the basis of calculating the Group's LAC and RWA is in accordance with the LAC Rules.

The Banking Disclosure Statement

The Group's Banking Disclosure Statement at 30 September 2020 comprises information required under the framework of the Basel Committee on Banking Supervision ("BCBS"). The disclosures are made in accordance with the latest BDR and the LAC Rules issued by the Hong Kong Monetary Authority ("HKMA").

According to the BDR and the LAC Rules, 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)
Key metrics

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
	Footnotes	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ("CET1")	114,467	112,308	107,718	111,560	107,781
2	Tier 1	126,211	124,052	119,462	123,304	119,525
3	Total capital	137,386	135,376	133,084	137,249	133,610
RWA (HK\$m)						
4	Total RWA	706,871	687,404	679,616	658,856	651,970
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.2	16.3	15.8	16.9	16.5
6	Tier 1 ratio (%)	17.9	18.0	17.6	18.7	18.3
7	Total capital ratio (%)	19.4	19.7	19.6	20.8	20.5
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500	2.500	2.500	2.500	2.500
9	Countercyclical capital buffer ("CCyB") requirement (%)	0.836	0.830	0.835	1.645	2.067
10	Higher loss absorbency requirements (%) (applicable only to Global systemically important authorised institutions ("G-SIBs") or Domestic systemically important authorised institutions ("D-SIBs"))	1.000	1.000	1.000	1.500	1.500
11	Total AI-specific CET1 buffer requirements (%)	4.336	4.330	4.335	5.645	6.067
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.4	11.7	11.3	12.4	12.0
Basel III leverage ratio						
13	Total leverage ratio ("LR") exposure measure (HK\$m)	1,647,574	1,632,393	1,577,686	1,572,114	1,537,718
14	LR (%)	7.7	7.6	7.6	7.8	7.8
Liquidity Coverage Ratio ("LCR")						
15	Total high quality liquid assets ("HQLA") (HK\$m)	373,182	333,086	314,106	324,034	331,860
16	Total net cash outflows (HK\$m)	187,369	168,382	173,303	161,484	158,122
17	LCR (%)	199.4	198.0	181.6	201.8	210.5
Net Stable Funding Ratio ("NSFR")						
18	Total available stable funding (HK\$m)	1,144,760	1,159,538	1,126,874	1,137,453	1,115,891
19	Total required stable funding (HK\$m)	767,213	768,157	771,588	762,817	751,178
20	NSFR (%)	149.2	151.0	146.0	149.1	148.6

- 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 - (MA(BS)3)" return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the BCR.
- The jurisdictional CCyB of Hong Kong used in the calculation of CCyB requirement at quarter end was 1.0% for 1Q 2020 to 3Q 2020, 2.0% for 4Q 2019 and 2.5% for 3Q 2019. The reductions were in accordance with the announcement made by the HKMA on 16 March 2020 and 14 October 2019 respectively. The jurisdictional CCyB for other countries at quarter end ranged from 0% to 1.0% for 3Q 2020.
- On 24 December 2019, the HKMA announced a reduction in the higher loss absorbency requirement for the Bank from 1.5% to 1.0% effective from 1 January 2020.
- The Basel III leverage ratios are disclosed in accordance with the information contained in the "Leverage Ratio - (MA(BS)27)" return submitted to the HKMA under the requirements specified in Part 1C of the BCR.
- The LCRs 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 - (MA(BS)1E)" return submitted to the HKMA under rule 11(1) of the Banking (Liquidity) Rules ("BLR").
- The NSFR disclosures are made in accordance with the information contained in the "Stable Funding Position - (MA(BS)26)" return submitted to the HKMA under the requirements specified in rule 11(1) of the BLR.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 2: KM2(A) – Key metrics – LAC requirements

	a	b	c	d	e
	At				
	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
Of the material entity at LAC consolidation group level					
1 Internal loss-absorbing capacity available (HK\$m)	156,866	154,856	152,566	156,743	153,126
2 Risk-weighted amount under the LAC Rules (HK\$m)	706,871	687,404	679,616	658,856	651,970
3 Internal LAC risk-weighted ratio (%)	22.2	22.5	22.4	23.8	23.5
4 Exposure measure under the LAC Rules (HK\$m)	1,646,529	1,631,348	1,576,641	1,571,199	1,536,803
5 Internal LAC leverage ratio (%)	9.5	9.5	9.7	10.0	10.0
6a Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6b Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6c If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

1 The subordination exemptions under Section 11 of the Financial Stability Board ("FSB") Total Loss-absorbing Capacity Term Sheet ("TLAC Term Sheet") do not apply in Hong Kong under the LAC Rules.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Capital and RWA

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 3: LR2 – Leverage ratio

	a	b
	30 Sep 2020	30 Jun 2020
	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)	1,552,231	1,542,922
2 Less: Asset amounts deducted in determining Tier 1 capital	(27,710)	(27,592)
3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)	1,524,521	1,515,330
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)	6,295	5,826
5 Add-on amounts for potential future exposure ("PFE") associated with all derivative contracts	12,359	12,664
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	18,654	18,490
Exposures arising from SFTs		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	23,066	13,424
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14 Counterparty credit risk ("CCR") exposure for SFT assets	549	161
15 Agent transaction exposures	-	-
16 Total exposures arising from SFTs	23,615	13,585
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	522,371	535,729
18 Less: Adjustments for conversion to credit equivalent amounts	(436,426)	(445,906)
19 Off-balance sheet items	85,945	89,823
Capital and total exposures		
20 Tier 1 capital	126,211	124,052
20a Total exposures before adjustments for specific and collective provisions	1,652,735	1,637,228
20b Adjustments for specific and collective provisions	(5,161)	(4,835)
21 Total exposures after adjustments for specific and collective provisions	1,647,574	1,632,393
Leverage ratio		
22 Leverage ratio	7.7%	7.6%

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Overview of RWA and the minimum capital requirements

Table 4: OV1 – Overview of RWA

	a	b	c
	RWA ¹		Minimum capital requirements ²
	30 Sep 2020 HK\$m	30 Jun 2020 HK\$m	30 Sep 2020 HK\$m
1 Credit risk for non-securitisation exposures	561,614	545,996	47,302
2 <i>Of which: Standardised credit risk ("STC") approach</i>	67,115	68,537	5,369
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>	17,478	14,660	1,482
5 <i>Of which: Advanced IRB approach</i>	477,021	462,799	40,451
6 Counterparty default risk and default fund contributions	3,924	3,633	332
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>	3,742	3,460	317
8 <i>Of which: Internal models (counterparty credit risk) ("IMM(CCR")) approach</i>	-	-	-
9 <i>Of which: Others</i>	182	173	15
10 Credit valuation adjustment ("CVA") risk	3,872	3,675	310
11 Equity positions in banking book under the simple risk-weight method and internal models method	20,970	18,749	1,778
12 Collective investment scheme ("CIS") exposures – Look-through ("LTA") approach*	Not applicable	Not applicable	Not applicable
13 CIS exposures – Mandate-based ("MBA") approach*	Not applicable	Not applicable	Not applicable
14 CIS exposures – Fall-back ("FBA") approach*	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 ("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	11,471	11,652	918
21 <i>Of which: Standardised market risk ("STM") approach</i>	257	157	21
22 <i>Of which: Internal models ("IMM") approach</i>	11,214	11,495	897
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	67,196	67,299	5,376
24a Sovereign concentration risk	-	-	-
25 Amounts below the thresholds for deduction (subject to 250% Risk-Weight ("RW"))	19,094	19,017	1,619
26 Capital floor adjustment	-	-	-
26a Deduction to RWA	(13,567)	(13,738)	(1,085)
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>	(13,567)	(13,738)	(1,085)
27 Total	674,574	656,283	56,550

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\$18.3bn since last quarter. Credit risk RWA for non-securitisation exposures was the key contributor which increased by HK\$15.6bn mainly driven by loan growth. RWA on equity positions in banking book under the simple risk-weight method increased by HK\$2.2bn due to value appreciation on holding.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

RWA flow statements
RWA flow statement for credit risk

 Table 5: CR8 – RWA flow statement of credit risk¹ exposures under IRB approach

	a
	Amount ²
	HK\$m
1 RWA as at end of previous reporting period (30 Jun 2020)	477,459
2 Asset size	15,663
3 Asset quality	285
4 Model updates	-
5 Methodology and policy	-
6 Acquisitions and disposals	-
7 Foreign exchange movements	1,837
8 Other	(745)
9 RWA as at end of reporting period (30 Sep 2020)	494,499

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

² RWA in this table are before the application of the 1.06 scaling factor.

RWA increased by HK\$17.0bn in the third quarter of 2020. The key driver was loan growth making RWA from asset size increase by HK\$15.7bn.

RWA flow statement for market risk

Table 6: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	d	e	f
	Value at risk ("VaR")	Stressed VaR	Incremental risk charge ("IRC")	Comprehensive risk charge ("CRC")	Other	Total RWA
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 RWA as at end of previous reporting period (30 Jun 2020)	5,709	5,786	-	-	-	11,495
2 Movement in risk levels	(757)	476	-	-	-	(281)
3 Model updates/changes	-	-	-	-	-	-
4 Methodology and policy	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-
6 Foreign exchange movements	-	-	-	-	-	-
7 Other	-	-	-	-	-	-
8 RWA as at end of reporting period (30 Sep 2020)	4,952	6,262	-	-	-	11,214

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Liquidity information

The Group is required to calculate its LCR on a consolidated basis in accordance with rule 11(1) of the BLR and to maintain an LCR of not less than 100%.

Table 7: Average liquidity coverage ratio

	Quarter ended
	30 Sep
	2020
	%
Average liquidity coverage ratio	199.4

The liquidity position of the Group remained strong for the third quarter of 2020. The average LCR increased from 198.0% for the quarter ended 30 June 2020 to 199.4% for the quarter ended 30 September 2020 was mainly driven by the increase in commercial surplus, and the increase in holding of high quality liquid assets ("HQLA").

The composition of the Group's 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 comprise mainly of government debt securities.

Table 8: Total weighted amount of high quality liquid assets

	Weighted amount
	(average) for the
	quarter ended
	30 Sep
	2020
	HK\$m
Level 1 assets	356,059
Level 2A assets	15,031
Level 2B assets	2,092
Total weighted amount of HQLA	373,182

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

In times of stress it cannot automatically be assumed that one currency can always be converted for another, even if those currencies are "hard" currencies. LCR is therefore assessed by single currency for those that are material. In some currencies, convertibility is restricted by regulators and central banks and this restriction results in local currency not being convertible offshore or even onshore. All operating entities are required to monitor material single currency LCR. Limits are approved and monitored by local Asset and Liability Management Committee.

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), the additional collateral required to post in the event of one-notch and two-notch downgrade in credit ratings is nil.

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 78 to 83 of the Group's 2019 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 30 September 2020 was 78.

Table 9: LIQ1 – Liquidity coverage ratio – for category 1 institution

		Quarter ended 30 Sep 2020 (78 data points)	
		a	b
Basis of disclosure: consolidated		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
A	High quality liquid assets		
1	Total high quality liquid assets ("HQLA")		373,182
B	Cash outflows		
2	Retail deposits and small business funding, of which:	889,086	72,503
3	<i>Stable retail deposits and stable small business funding</i>	234,369	7,031
4	<i>Less stable retail deposits and less stable small business funding</i>	654,717	65,472
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:	317,101	153,028
6	<i>Operational deposits</i>	34,056	7,848
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	277,779	139,914
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	5,266	5,266
9	Secured funding transactions (including securities swap transactions)		28
10	Additional requirements, of which:	82,692	12,684
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	4,295	4,267
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	661	661
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	77,736	7,756
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	26,628	26,628
15	Other contingent funding obligations (whether contractual or non-contractual)	448,624	2,056
16	Total cash outflows		266,927
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	5,035	1,979
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	103,213	61,097
19	Other cash inflows	25,822	16,482
20	Total cash inflows	134,070	79,558
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		373,182
22	Total net cash outflows		187,369
23	LCR (%)		199.4%

BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

Other information

Abbreviations

B		L	
Bank	Hang Seng Bank Limited	LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules
BCBS	Basel Committee on Banking Supervision	LAC	Loss-absorbing Capacity
BCR	Banking (Capital) Rules	LCR	Liquidity coverage ratio
BDR	Banking (Disclosure) Rules	LR	Leverage ratio
BLR	Banking (Liquidity) Rules	LTA	Look through approach
BSC	Basic approach	M	
C		MBA	Mandate-based approach
CCP	Central counterparty	N	
CCR	Counterparty credit risk	N/A	Not applicable
CCyB	Countercyclical capital buffer	NSFR	Net stable funding ratio
CEM	Current exposure method	P	
CET1	Common equity tier 1	PFE	Potential future exposure
CIS	Collective investment scheme	R	
CRC	Comprehensive risk charge	RW	Risk-weight
CSA	Credit Support Annex	RWA	Risk-weighted asset(s)/risk-weighted amount(s)
CVA	Credit valuation adjustment	S	
D		SA-CCR	Standardised approach for counterparty credit risk
D-SIB	Domestic systemically important authorised institution	SEC-ERBA	Securitisation external ratings-based approach
F		SEC-FBA	Securitisation fall-back approach
FBA	Fall-back approach	SEC-IRBA	Securitisation internal ratings-based approach
FIRO	Financial Institutions (Resolution) Ordinance	SEC-SA	Securitisation standardised approach
FSB	Financial Stability Board	SFT	Securities financing transaction
G		STC	Standardised (credit risk) approach
G-SIB	Global systemically important authorised institution	STM	Standardised (market risk) approach
Group	Hang Seng Bank Limited together with its subsidiaries	T	
H		TLAC Term Sheet	Total Loss-absorbing Capacity Term Sheet
HK\$bn	Billions (thousands of millions) of Hong Kong dollars	V	
HK\$m	Millions of Hong Kong dollars	VaR	Value at risk
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		