Hang Seng Bank Limited
Macau Branch

Financial disclosure
(unaudited)

for the year ended 31 December 2018

Balance sheet as of 31 December 2018

(Expressed in thousands of Macau Patacas)

Assets	*Assets gross amount*	*Provisions, amortisation and devaluation*	*Assets net amount*
Cash	32,846	-	32,846
Deposits with AMCM	153,475	-	153,475
Cheques and bills receivables	54,642	-	54,642
Current deposits with other local credit institutions	1,273,505	-	1,273,505
Current deposits with other overseas credit institutions	51,132	-	51,132
Gold and silver	-	-	-
Other current assets	-	-	-
Loans and advances to customers	14,473,799	60,745	14,413,054
Placement with local credit institutions	-	-	-
Call and time deposits with overseas credit institutions	2,176,657	-	2,176,657
Equity securities, bonds and shareholdings	-	-	-
Applications & resources consigned to the bank	-	-	-
Debtors	-	-	-
Other investment	-	-	-
Financial investment	-	-	-
Immovable properties	-	-	-
Equipments	21,545	13,511	8,034
Deferred expenses	-	-	-
Organisation costs	-	-	-
Immovable properties in progress	-	-	-
Other fixed assets	-	-	-
Internal and adjustment accounts	41,928	-	41,928
Total	18,279,529	74,256	18,205,273

Balance sheet as of 31 December 2018 (continued)

(Expressed in thousands of Macau Patacas)

Liabilities	*Sub-total*	*Total*
Current deposits	1,588,984	
Call deposits	-	
Time deposits	558,002	2,146,986
Deposits from public sector entities	-	
Placement from local credit institutions	-	
Placement from other local institutions	-	
Foreign currencies debts	14,715,256	
Bond debts	-	
Creditors of applications & resources consigned to the bank	-	
Cheques and bills payable	62,934	
Creditors	-	
Other liabilities	-	14,778,190
Internal and adjustment accounts	77,346	
Risk reserve	152,757	
Capital	52,300	
Legal reserve	-	
Self-constituted reserve	-	
Other reserves	-	
Revaluation reserve	-	282,403
Retained earnings	917,944	
Profit and loss for the year	79,750	997,694
Total		18,205,273

Income statement
for the year ended 31 December 2018

Operating account

(Expressed in thousands of Macau Patacas)

Debit	*Amount*	*Credit*	*Amount*
Costs of credit operations	215,955	Income from credit operations	423,102
Personnel costs		Income from banking services	31,023
Directors and supervisory committee emoluments	-	Income from other banking services	-
Employee remuneration	32,090	Income from securities and equity investments	-
Staff benefit costs	2,130	Other banking income	-
Other personnel costs	8	Income from non-banking operations	-
Third party supply	271	Operation loss	-
Third party services	9,520		
Other banking costs	25,528		
Taxation	-		
Costs of non-banking operations	-		
Depreciation allowances	4,194		
Provision allowances	73,832		
Operating profit	90,597		
Total	454,125	Total	454,125

Profit and loss account

(Expressed in thousands of Macau Patacas)

Debit	*Amount*	*Credit*	*Amount*
Operating loss	-	Operating profit	90,597
Losses related to previous years	-	Profit related to previous years	-
Exceptional losses	-	Exceptional profits	-
Profit tax provision	10,847	Provision used up	-
Additional provision in accordance with Financial System Act	-	Profit and loss for the year (loss)	-
Profit and loss for the year (profit)	79,750		
Total	90,597	Total	90,597

Hang Seng Bank Limited Macau Branch – Operational Results Summary

The global economy recorded a moderate pace of expansion during 2018. Continuing concerns over international trade flows and increased volatility in the world's financial markets created more challenging operating conditions in the second half of the year.

Against this backdrop, the Macau Branch (Branch) continued to follow Hang Seng Bank's long-term growth strategy by investing more resources in leveraging our competitive strengths and building better operational infrastructure to sustain good business momentum in variable market conditions. The Branch enhanced its operating capacity and anticipated the changing needs of customers in a timely manner to deliver an enhanced service experience to clients and support solid income and profit growth.

The principal activities of the Branch during 2018 were the provision of banking services to commercial and personal customers, including diversified deposit and trade finance services, cross-border renminbi trade services, mortgage loans, corporate lending, remittances and foreign exchange, bills collection and insurance agency services. As at 31 December 2018, customer deposits and customer loans were MOP2,147 million and MOP14,474 million respectively. Profit after tax for the year was MOP79.75 million.

Looking ahead, the Branch will continue to adopt a dynamic, yet strategic, approach to capture new business opportunities, mitigate risk and drive business momentum in various market conditions to achieve long-term sustainable growth.

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

Isidorus Fong
Branch Manager
Hang Seng Bank Limited Macau Branch

EXTERNAL AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

TO THE MANAGEMENT OF HANG SENG BANK LIMITED – MACAU BRANCH

The attached summary financial statements of Hang Seng Bank Limited - Macau Branch (the "Branch") for the year ended 31 December 2018 have been derived from the audited financial statements and the books and records of the Branch for the year ended on the same date. These summary financial statements, which comprise the balance sheet as at 31 December 2018 and the income statement for the year then ended, are the responsibility of the management. Our responsibility is to express an opinion solely to you, as a body, as to whether the summary financial statements are consistent, in all material respects, with the audited financial statements and the books and records of the Branch, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We have audited the financial statements of the Branch for the year ended 31 December 2018 in accordance with Auditing Standards and Technical Standards on Auditing issued by the Government of the Macau Special Administrative Region and have issued an auditor's report with an unqualified opinion on these financial statements dated 29 April 2019.

The audited financial statements comprise the balance sheet as at 31 December 2018, and the income statement, head office account, statement of changes in reserves and cash flow statement for the year then ended, and a summary of significant accounting policies and explanatory notes.

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

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

Cheung Pui Peng Grace
Registered Auditor
PricewaterhouseCoopers

Macau, 29 April 2019

Cash flow statement
for the year ended 31 December 2018

(Expressed in thousands of Macau Patacas)

	Amount
Cash flows from operating activities	
Profit before income tax	90,597
Depreciation	4,194
Loan impairment charge	73,832
Interest income	(423,102)
Interest expense	215,955
Interest received	411,500
Interest paid	(184,447)
Decrease in minimum deposits with AMCM	16,760
Increase in gross loans and advances to customers	(1,454,758)
Increase in other assets	(2,383)
Decrease in balances with banks with original maturity more than three months	205,423
Decrease in deposits from customers	(686,385)
Increase in deposits and balances from banks	1,202,738
Decrease in other liabilities	(3,973)
Cash outflow from operating activities before taxation	(534,049)
Macau complementary tax paid	(22,457)
Withholding tax refund received	-
Cash outflow from operating activities	(556,506)
Cash flows from investing activities	
Purchase of tangible fixed assets	(55)
Proceeds from redemption of investments	-
Payment for purchase of investments	-
Cash outflow from investing activities	(55)
Cash flows from financing activities	
Capital contribution from Head Office	-
Decrease in cash and cash equivalents	(556,561)
Cash and cash equivalents at 1 January	3,346,745
Cash and cash equivalents at 31 December	2,790,184
For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.	
Cash and balances with banks	2,682,032
Deposits with AMCM in excess of minimum statutory requirement	116,444
Items in course of collection from other banks	54,642
Items in course of transmission to other banks	(62,934)
	2,790,184

Off-balance sheet exposures

(a) ***Contingent liabilities and commitments***

(Expressed in thousands of Macau Patacas)

As at 31 December 2018	*Amount*
Bank guarantees	138,511
Commitments:	
Trade-related contingencies	1,036,430
Acceptance on trade bills	695,487
Undrawn formal standby facilities, credit lines and other commitments to lend	4,024,007
	5,755,924

(b) ***Lease commitments***

The Branch leases a number of properties under operating leases. The leases typically run for a period of one to three years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are as follows:

(Expressed in thousands of Macau Patacas)

	Amount
Not later than one year	7,398
Later than one year and not later than five years	8,342
	15,740

Derivative transactions

The following table gives the notional contract amounts, marked to market value of assets and liabilities, credit equivalent amounts and risk-weighted amounts as at 31 December 2018.

(Expressed in thousands of Macau Patacas)

	Contract amount	*Derivative assets*	*Derivative liabilities*	*Credit equivalent amount*	*Risk-weighted amount*
Exchange rate contracts – Forward contracts	169,839	4,115	4,115	5,813	1,163
Interest rate contracts	-	-	-	-	-
Equities contracts	-	-	-	-	-
Commodities contracts	-	-	-	-	-
Others	-	-	-	-	-

Significant accounting policies

a) Revenue recognition

(i) Interest income and interest expense

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

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

(ii) Fee and commission income

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

b) Loans and advances to customers

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

c) Provision for bad and doubtful debts

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

d) Tangible fixed assets

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

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

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

Significant accounting policies (continued)

e) Foreign currency treatment

(i) Functional and presentation currency

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

(ii) Foreign currency transactions and balances

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

f) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments comprise cash and balances with banks maturing within one month and items in the course of collection from or in transmission to other banks.

g) Operating leases

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

h) Current and deferred taxes

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

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

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

Significant accounting policies (continued)

i) Derivative financial instruments

Derivative financial instruments are recognised initially, and are subsequently remeasured at fair value. Subsequent to initial recognition, derivatives are marked to market with any changes in mark to market taken to the income statement. Derivatives are classified as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, an unconditional right of offset exists, and the parties intend to settle the cash flows on a net basis.

j) Employee benefits

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

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

k) Provisions other than those on bad and doubtful debts

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

l) Financial guarantees

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

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

m) Related parties

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

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

n) Changes in accounting policies

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

Material related-party transactions

(a) Policy for related party transactions

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

(b) Transactions with Head Office, a subsidiary of Head Office and other related companies

The aggregate amount of income and expenses arising from these transactions during the year, and the total contract sum of off-balance sheet transactions at the year-end are as follows:

(Expressed in thousands of Macau Patacas)

	Amount
Interest income from Head Office and a subsidiary of Head Office	46,680
Interest expenses to Head Office	(203,883)
Fee and commission paid to Head Office and a subsidiary of Head Office	(8,970)
Management fee paid to Head Office	(8,029)
Operating expenses paid to other related companies	(4,476)
	(178,678)
Notional forward exchange rate contracts	169,839

The balances with Head Office and a subsidiary of Head office at the year-end are as follows:

(i) Assets

(Expressed in thousands of Macau Patacas)

	Amount
Cash and balances with banks	
- Demand deposits	51,005
- Placement	2,176,657
Other assets	
- Interest receivables	6,537
- Derivative financial instruments	-

(ii) Liabilities

(Expressed in thousands of Macau Patacas)

	Amount
Deposits and balances from banks	
- Demand and placements from banks	14,715,256
Other liabilities	
- Interest payable	45,427
- Derivative financial instruments	4,115

Material related-party transactions (continued)

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

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

(Expressed in thousands of Macau Patacas)

	Amount
Executive officers	2,457

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

During the year, the Branch did not provide credit facilities to key management personnel of the Branch and its Head Office, their close family members and companies controlled or significantly influenced by them.

Credit risk

(a) ***Definition of past due or impaired loans***

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

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

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

(b) ***Impairment allowance***

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

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

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

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

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

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

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

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

Credit risk (continued)

(d) Geographic distribution of exposure

(Expressed in thousands of Macau Patacas)

	Banks	*Governments*	*Public sector entities*	*Others*	*Total exposures*	*Individually impaired loans and advances*	*Overdue loans and advances#*	*Specific provision*	*General provision*
Loans & commitments*									
– Macau	-	-	-	16,755,807	16,755,807	63,768	63,768	(60,745)	(134,669)
– Hong Kong	-	-	-	1,659,325	1,659,325	-	-	-	(17,211)
– Others	-	-	-	82,674	82,674	-	-	-	(876)
	-	-	-	18,497,806	18,497,806	63,768	63,768	(60,745)	(152,757)
Debt securities									
– Macau	-	-	-	-	-				
– Hong Kong	-	-	-	-	-				
– Others	-	-	-	-	-				
	-	-	-	-	-				
Financial derivatives									
– Macau	-	-	-	169,839	169,839				
– Hong Kong	-	-	-	169,839	169,839				
– Others	-	-	-	-	-				
	-	-	-	339,678	339,678				

* Undrawn formal standby facilities, credit lines and other commitments to lend are included.
# Loans and advances which have been overdue with respect to either principal or interest for periods of more than three months.

Credit risk (continued)

(e) Industry distribution of exposures of loans and advances

(Expressed in thousands of Macau Patacas)

	Gross loans and advances	Individually impaired loans and advances	Overdue loans and advances[#]	Specific provision	General provision
Manufacturing	33,324	-	-	-	(353)
Electricity, gas and water	-	-	-	-	-
Construction and public works	360,366	-	-	-	(3,820)
Trade (wholesale and retail)	5,058,807	63,768	63,768	(60,745)	(52,951)
Restaurants, hotels and related activities	17,327	-	-	-	(184)
Transport, warehouse and communications	-	-	-	-	-
Individuals for house purchases	3,247,284	-	-	-	(34,424)
Individuals for other purposes	167,582	-	-	-	(1,776)
Others	5,589,109	-	-	-	(59,249)
	14,473,799	63,768	63,768	(60,745)	(152,757)

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

(f) Maturity analysis on assets and liabilities

(Expressed in thousands of Macau Patacas)

	Repayable on demand	1 month or less but not repayable on demand	3 months or less but over1 month	1 year or less but over 3 months	3 years or less but over 1 year	After 3 years	Indefinite period	Total
Assets								
Loans and advances to customers	6,047	3,924,417	461,200	375,486	1,193,739	8,299,408	-	14,260,297
Cash and balances with and loans and advances to banks	1,473,928	1,015,114	759,953	438,620	-	-	-	3,687,615
Certificates of deposits held	-	-	-	-	-	-	-	-
Securities issued by Macau SAR Government and/or AMCM	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-
Liabilities								
Deposits and balances of banks and financial institutions	292,675	4,842,817	1,577,094	8,002,670	-	-	-	14,715,256
Deposits from public sector entities	-	-	-	-	-	-	-	-
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Deposits from non-bank customers	1,588,984	270,457	278,837	8,708	-	-	-	2,146,986
Certificates of deposits issued	-	-	-	-	-	-	-	-
Other securities issued	-	-	-	-	-	-	-	-

Credit risk (continued)

(g) ***Overdue loans and advances to banks***

There were no overdue loans and advances to banks as at 31 December 2018.

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

(Expressed in thousands of Macau Patacas)

	Gross loans and advances	*% of total loans and advances to non-bank customers*	*Collateral value*	*Specific Provision*
Loans and advances to non-bank customers which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	63,768	0.44%	-	(60,745)
- more than six months but not more than one year	-	-	-	-
- more than one year	-	-	-	-
	63,768	0.44%	-	(60,745)

(i) ***Overdue other assets***

There were no overdue loans and advances to overdue other assets as at 31 December 2018.

Market risk

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

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

Interest rate risk

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

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

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

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

Operational risk

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

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

Foreign exchange risk

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

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

(Expressed in thousands of Macau Patacas)

	Spot assets	*Spot liabilities*	*Forward purchases*	*Forward sales*	*Net options position*	*Net long (or net short) position*
Chinese renminbi	9,170	(8,998)	-	-	-	172
Hong Kong dollars	14,166,700	(14,165,437)	-	-	-	1,263
US dollars	2,490,450	(2,490,146)	-	-	-	304
Other foreign currencies	71,932	(71,826)	169,839	(169,839)	-	106
	16,738,252	(16,736,407)	169,839	(169,839)	-	1,845

Liquidity risk

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

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

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

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

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

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

(Expressed in thousands of Macau Patacas)

During the annual reporting period of 2018:	
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	64,638
The arithmetic mean of the average weekly amount of cash in hand	186,841
The arithmetic mean of the specified liquid assets at the end of each month	1,313,513
The average ratio of specified liquid assets to total basic liabilities at the end of each month	52%
The arithmetic mean of one-month liquidity ratio in the last week of each month	114%
The arithmetic mean of three-month liquidity ratio in the last week of each month	85%

List of the shareholders with qualifying holdings

Hang Seng Bank Limited

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the Securities and Futures Ordinance ("SFO") recorded that, as at 31 December 2018, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited ("HBAP")	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

Due to an internal legal entity restructuring of the HSBC Group, HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) have ceased as controlling shareholders of the Bank, and HSBC Asia Holdings Limited, being a wholly-owned subsidiary of HSBC Holdings plc, has become an intermediate holding company of the Bank as a result of it holding 100% of the ordinary shares of HBAP, with effect from 20 November 2018.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 31 December 2018, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Names of the members of the company boards

Hang Seng Bank Limited

List of Directors
At 19 February 2019, the members of the board of Directors of Hang Seng Bank Limited are set out below.

Independent Non-executive Chairman
Raymond CH'IEN Kuo Fung *(Chairman)*

Executive Directors
Louisa CHEANG Wai Wan *(Vice-Chairman and Chief Executive)*
Margaret KWAN Wing Han

Non-executive Directors
Nixon CHAN Lik Sang
Sarah Catherine LEGG
Vincent LO Hong Sui
Kenneth NG Sing Yip
Peter WONG Tung Shun

Independent Non-executive Directors
John CHAN Cho Chak
CHIANG Lai Yuen
Irene LEE Yun Lien
Eric LI Ka Cheung
Michael WU Wei Kuo

Consolidated capital ratios

Hang Seng Bank Limited

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

The Group uses the advanced internal ratings-based approach ("IRB") to calculate its credit risk for the majority of its non-securitisation exposures. For 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 bullion) 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.

Consolidated capital ratios (continued)

Capital structure

(Figures in HK$ million)	**2018**
Common Equity Tier 1 (“CET1”) Capital	
Shareholders' equity	133,990
- Shareholders’ equity per consolidated balance sheet	162,082
- Additional Tier 1 (“AT1”) perpetual capital instrument	(6,981)
- Unconsolidated subsidiaries	(21,111)
Non-Controlling interests	-
- Non-controlling interest per consolidated balance sheet	25
- Non-controlling interest in unconsolidated subsidiaries	(25)
Regulatory deductions to CET1 capital	(32,266)
- Cash flow hedging reserve	4
- Changes in own credit risk on fair valued liabilities	(12)
- Property revaluation reserves[1]	(26,543)
- Regulatory reserve	(4,982)
- Intangible assets	(463)
- Defined benefit pension fund assets	(11)
- Deferred tax assets net of deferred tax liabilities	(111)
- Valuation adjustments	(148)
Total CET1 Capital	**101,724**
AT1 Capital	
Total AT1 capital before and after regulatory deductions	6,981
- Perpetual capital instrument	6,981
Total AT1 Capital	6,981
Total Tier 1 (“T1”) Capital	**108,705**
Tier 2 (“T2”) Capital	
Total T2 capital before regulatory deductions	15,517
- Property revaluation reserves[1]	11,944
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	3,573
Regulatory deductions to T2 capital	(915)
- Significant capital investments in unconsolidated financial sector entities	(915)
Total T2 Capital	**14,602**
Total Capital	**123,307**

[1] *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

Consolidated capital ratios (continued)

(Figures in HK$ million)	**2018**
Risk-weighted assets	611,885
Capital ratios	
CET1 capital ratio	16.6%
Tier 1 capital ratio	17.8%
Total capital ratio	20.2%

Consolidated assets, liabilities and profits positions

Hang Seng Bank Limited

(Figures in HK$ million)	2018
Total assets	1,571,297
Total liabilities	1,409,190
Total loans and advances	874,456
Total customer deposits including current, savings and other deposit accounts and certificates of deposit and other debt securities in issue	1,191,169
Pre-tax profit	28,432