

Hang Seng Bank Limited  
Macau Branch

*Financial disclosure  
for the year ended 31 December 2012*

## Balance sheet as of 31 December 2012 (audited)

(Expressed in Macau Patacas)

<i>Assets</i>	<i>Assets gross amount</i>	<i>Provisions, amortisation and devaluation</i>	<i>Assets net amount</i>
Cash	18,824,565.15	-	18,824,565.15
Deposits with AMCM	413,884,831.85	-	413,884,831.85
Cheques and bills receivables	24,278,705.25	-	24,278,705.25
Current deposits with other local credit institutions	485,163,714.78	-	485,163,714.78
Current deposits with other overseas credit institutions	1,514,227,297.17	-	1,514,227,297.17
Gold and silver	-	-	-
Other current assets	-	-	-
Loans and advances to customers	5,881,783,461.57	1,003,309.66	5,880,780,151.91
Placement with local credit institutions	50,000,000.00	-	50,000,000.00
Call and time deposits with overseas credit institutions	449,558,196.17	-	449,558,196.17
Equity securities, bonds and shareholdings	-	-	-
Applications & resources consigned to the bank	-	-	-
Debtors	-	-	-
Other investment	-	-	-
Financial investment	-	-	-
Immovable properties	-	-	-
Equipments	9,025,004.00	7,982,661.41	1,042,342.59
Deferred expenses	-	-	-
Organisation costs	-	-	-
Immovable properties in progress	-	-	-
Other fixed assets	-	-	-
Internal and adjustment accounts	14,070,739.45	-	14,070,739.45
Total	8,860,816,515.39	8,985,971.07	8,851,830,544.32

## Balance sheet as of 31 December 2012 (audited) (continued)

(Expressed in Macau Patacas)

<i>Liabilities</i>	<i>Sub-total</i>	<i>Total</i>
Current deposits	1,842,089,975.19	
Call deposits	-	
Time deposits	203,297,864.17	2,045,387,839.36
Deposits from public sector entities	-	
Placement from local credit institutions	-	
Placement from other local institutions	-	
Foreign currencies debts	6,452,663,103.08	
Bond debts	-	
Creditors of applications & resources consigned to the bank	-	
Cheques and bills payable	17,450,659.61	
Creditors	-	
Other liabilities	-	6,470,113,762.69
Internal and adjustment accounts	19,413,643.50	
Risk reserve	11,986,123.15	
Capital	-	
Legal reserve	-	
Self-constituted reserve	-	
Other reserves	52,393,812.42	
Revaluation reserve	1,112.78	83,794,691.85
Retained earnings	178,991,604.21	
Profit and loss for the year	73,542,646.21	252,534,249.42
Total		8,851,830,544.32

Other reserves include general risk reserve of MOP46,042,965.28 and special reserve of MOP 63,589.14. The Branch prepared the annual financial statement and made the loan impairment allowance in accordance with 《Macau Financial Reporting Standard》. The relevant impairment allowance made may be lower than the minimum general risk reserve and special reserve required by 《No.18 / 93 - AMCM notice》.

The Branch has provided an amount equal to the difference between the minimum required reserve and the impairment allowance (after the consideration of the deferred tax of MOP6,287,258.00) as statutory provision. The relevant provision added has been stated as “additional provision in accordance with Financial System Act” in the profit and loss account of the summarised financial statements and as an adjustment item between the “profit after taxation” and “profits for the year under AMCM rules” in the income statement of audited financial statement.

Profit and loss account  
for the year ended 31 December 2012 (audited)

**Operating account**

(Expressed in Macau Patacas)

<i>Debit</i>	<i>Amount</i>	<i>Credit</i>	<i>Amount</i>
Costs of credit operations	31,973,012.73	Income from credit operations	129,542,058.08
Personnel costs		Income from banking services	25,391,599.18
Directors and supervisory committee emoluments	-	Income from other banking services	-
Employee remuneration	11,158,605.89	Income from securities and equity investments	-
Staff benefit costs	1,071,243.45	Other banking income	-
Other personnel costs	230,686.97	Income from non-banking operations	-
Third party supply	284,536.64	Operation loss	-
Third party services	3,562,863.94		
Other banking costs	15,299,050.83		
Taxation	-		
Costs of non-banking operations	-		
Depreciation allowances	432,116.60		
Provision allowances	(1,785,168.62)		
Operating profit	92,706,708.83		
Total	154,933,657.26	Total	154,933,657.26

**Profit and loss account**

(Expressed in Macau Patacas)

<i>Debit</i>	<i>Amount</i>	<i>Credit</i>	<i>Amount</i>
Operating loss	-	Operating profit	92,706,708.83
Losses related to previous years	-	Profit related to previous years	-
Exceptional losses	-	Exceptional profits	-
Profit tax provision	10,142,618.85	Provision used up	-
Additional provision in accordance with Financial System Act	9,021,443.77	Profit and loss for the year (loss)	-
Profit and loss for the year (profit)	73,542,646.21		
Total	92,706,708.83	Total	92,706,708.83

## Brief management report on the Branch's activities in Macau

The global economic environment in 2012 was still uncertain. Supported by continuous growth of Macau's economy, the Branch continuously maintained a sound and diversified operating strategy and deployed extra resources to further improve different types of services. As a result, although the Branch was facing different types of challenges, the business still maintained a steady growth.

During 2012, the principal activities of the Branch were the provision of banking services to both commercial and personal customers including diversified deposit services, trade finance, cross-border renminbi trade service, mortgage loan, corporate lending, remittance & foreign exchange, bills collection, automated teller machines and insurance agency etc. Customer deposits and lending were MOP 2,045 million and MOP 5,880 million respectively at the year-end. Profit after tax was MOP 74 million for the year.

2013 is the 10th anniversary of the establishment of the Macau Branch. The Branch will continuously uphold the principles of service excellence, integrity and sound business management established by our founders to provide services to customers. Supported by the growth momentum of Macau's economy, the Branch will also proactively plan and study for opening a sub-branch in order to further improve the service channels and become a trusted wealth management partner for customers.

The Branch would like to express sincere appreciation to the support from each Macau government authority, customers, peers, staff and their family members.

Isidorus Fong

Branch Manager

Hang Seng Bank Limited Macau Branch

# Summary of the external auditors' report

To the General Manager of Hang Seng Bank Limited, Macau Branch

(Branch of a commercial bank with limited liability incorporated in the Hong Kong Special Administrative Region)

We have audited the financial statements of Hang Seng Bank Limited, Macau Branch ("the Branch") for the year 2012 in accordance with the Auditing Standards and the Technical Auditing Standards of the Macau Special Administrative Region. In our report dated 14 May 2013, we expressed an unqualified opinion on the financial statements.

The audited financial statements referred to above comprise the balance sheet as at 31 December 2012, and the income statement, statement of changes in reserves, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The accompanying summarised financial statements prepared by the management were derived from the audited financial statements referred to above and the books and records of the Branch. In our opinion, page 1 to page 3 of the summarised 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 and the results of its operation for the period of the Branch and the scope of our audit, the summarised financial statements should be read in conjunction with the audited financial statements and our independent auditor's report thereon.

Lei Iun Mei, Certified Public Accountant

KPMG

Macau, 14 May 2013

# Cash flow statement for the year ended 31 December 2012 (audited)

(Expressed in Macau Patacas)

	<i>Amount</i>
<b>Operating activities</b>	
Profit before taxation	92,706,709
Adjustments for:	
Net release for impairment allowances	(1,785,169)
Advances written off net of recoveries	(241,370)
Interest income	(129,542,058)
Interest expense	31,973,013
Interest received	131,671,959
Interest paid	(36,444,684)
Depreciation	432,117
	<hr/>
<b>Operating profit before changes in working capital</b>	88,770,517
Increase in loans and advances to customers	(816,816,345)
Decrease in amounts due from Head Office and other branch with original maturity more than three months	290,974,520
Increase in other assets	(10,917,947)
Increase in current, savings and other deposits from customers	391,566,562
Increase in amounts due to Head Office and other branch	488,818,053
Increase in other liabilities	14,524,522
	<hr/>
<b>Cash generated from operations</b>	446,919,882
Macau profits tax paid	(8,230,298)
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<b>Net cash generated from operations</b>	438,689,584
	<hr style="border-top: 1px dashed black;"/>
<b>Investing activities</b>	
Purchase of fixed assets	(151,612)
Proceeds from redemption of available-for-sale investments	100,000,000
Payment for purchase of available-for-sale investments	(99,779,749)
	<hr/>
<b>Net cash flows from investing activities</b>	68,639
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<b>Net increase in cash and cash equivalents</b>	438,758,223
<b>Cash and cash equivalents at 1 January</b>	2,401,637,811
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<b>Cash and cash equivalents at 31 December</b>	2,840,396,034
	<hr style="border-top: 1px dashed black;"/>
<b>Cash and cash equivalents in the cash flow statement</b>	
Cash	917,952,952
Amount due from Head Office and other branch with original maturity within three months	1,922,443,082
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	<u>2,840,396,034</u>

## Off-balance sheet exposures

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

(Expressed in Macau Patacas)

	<i>Contractual amounts</i>
Bank guarantees	29,659,427
<b>Commitments:</b>	
Documentary credits and short-term trade-related transactions	590,219,358
Acceptance on the trade bills	434,354,832
Undrawn formal standby facilities, credit lines and other commitments to lend	3,630,262,751
	<u>4,654,836,941</u>

(b) *Lease commitments (audited)*

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 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(Expressed in Macau Patacas)

	<i>Contractual amounts</i>
Within one year	2,074,361
After one year but within five years	1,262,143
	<u>3,336,504</u>



## 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.

*(Expressed in Macau Patacas)*

	<i>Contract amount</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Credit equivalent amounts</i>	<i>Risk-weighted amounts</i>
Exchange rate contracts – Forward contracts	780,054,482	2,401,085	2,401,085	15,601,090	5,460,382
Interest rate contracts	-	-	-	-	-
Equities contracts	-	-	-	-	-
Commodities contracts	-	-	-	-	-
Others	-	-	-	-	-

## Significant accounting policies (audited)

### (a) *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments are recognised as “interest income” and “interest expense” respectively in the income statement 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 not future credit losses. The calculation includes all amounts paid or received by the Branch that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

### (b) *Non-interest income*

Fee income is generated from a diverse range of services the Branch provides to its customers and accounted for in the period as follows:

- if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed;
- if the income is earned as services are provided, it is recognised as revenue when the services are provided; and
- if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate and reported in “interest income”.

### (c) *Provisions*

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and a reliable estimate can be made as to the amount of the obligation.

### (d) *Financial investments*

#### (i) Classification

Available-for-sale investments are financial assets that are not held for trading purposes or held to maturity. Available-for-sale investments include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

#### (ii) Recognition

The Branch recognises available-for-sale assets on the date it commits to purchase the assets.

#### (iii) Measurement

Investments are measured initially at fair value, which normally will be equal to the transaction price plus transaction costs that are directly attributable to the acquisition of the financial investment.

Subsequent to initial recognition all available-for-sale assets are measured at fair value, based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Unrealised gains and losses arising from changes in the fair value are recognised directly in the available-for-sale investment revaluation reserve except for foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

## Significant accounting policies (audited) (continued)

(e) ***Derivative financial instruments***

Derivative financial instruments are initially recognised 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 carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are intended to be settled on a net basis. Fair values are determined in accordance with note (f).

(f) ***Determination of fair value***

The fair value of financial instruments is based on their quoted market prices at the balance sheet date, or date close to balance sheet date, without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices unless the position is immaterial. In such case, mid rate will be applied for both long and short positions.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates, and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

(g) ***Impairment of assets***

The carrying amount of the Branch's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

(i) **Available-for-sale financial assets**

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in reserve is removed from reserve and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in reserve.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(ii) **Other assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the premises and equipment (other than properties carried at revalued amounts) may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

## Significant accounting policies (audited) (continued)

### (g) *Impairment of assets (continued)*

#### (ii) Other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated.

##### - Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### - Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

##### - Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

### (h) *Translation of foreign currencies*

Foreign currency transactions during the year are translated into Macau Patacas at the exchange rates ruling at the transaction dates. Assets and liabilities denominated in foreign currencies are translated into Macau Patacas at the exchange rates ruling at the balance sheet date. Exchange differences are recognised in the income statement.

### (i) *Related parties*

For the purposes of this financial disclosure, 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 Bank and its holding companies, directly or indirectly, including any directors (whether executive or otherwise) and Executive Committee members of the Bank and its holding companies.

### (j) *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 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 the relevant market rates at the time of the transactions.

(b) **Transactions with Head Office and fellow subsidiaries (audited)**

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 Macau Patacas)*

	Amount
Interest income from Head Office and other branch	8,315,208
Interest expenses to Head Office	(26,883,010)
Fee and commission paid to Head Office	(6,780,748)
Management fee paid to Head Office	(3,312,480)
Operating expenses paid to HSBC	(1,118,315)
Forward exchange rate contracts	390,027,241
	<u>390,027,241</u>

The balances of amounts due from and to Head Office and other branch at the year end are as follows:

(i) Amounts due from Head Office and other branch

*(Expressed in Macau Patacas)*

	Amount
Placement with Head Office and other branch with remaining maturity:	
- within one month	181,523,146
- three months or less but over one month	182,482,990
- over three months but less than one year	85,552,060
Interest-bearing deposits receivable on demand	1,514,147,457
Interest receivable	783,012
	<u>1,964,488,665</u>

(ii) Amounts due to Head Office and other branch

*(Expressed in Macau Patacas)*

	Amount
Deposits repayable on demand	732,856,320
Placement from Head Office	5,667,506,783
Interest payable	1,832,189
Interest-free deposits with no fixed term of repayment	52,300,000
Others	152,017
	<u>6,454,647,309</u>

## Material related-party transactions (continued)

(c) **Key management personnel remuneration (audited)**

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

(Expressed in Macau Patacas)

	Amount
Executive officers	<u>1,910,508</u>

(d) **Material transaction with key management personnel (audited)**

During the year, the Branch did not provide credit facilities to key management personnel of 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 objective evidence that impairment of a loan 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;
- breach of loan covenants or conditions; and
- the probability that the borrower will enter bankruptcy or other financial restructuring.

(b) ***Impairment allowance***

Losses for impaired loans are promptly recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are assessed either individually for individually significant loans or collectively for loan portfolios with similar credit risk characteristics.

(i) Individually assessed loans

For all loans that are considered individually significant, the Branch assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Branch's aggregate exposure to the borrower;
- the viability of the borrower's business model and capability to generate cash flow to service their debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, the Branch and the likelihood of other creditors continuing to support the borrower;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain and make payments in the relevant foreign currency if loans are not in local currency.

Impairment allowances of an individually assessed loan are measured as the difference between the carrying value and the present value of estimated future cash flows discounted at the original effective interest rate of the individual loan.

## Credit risk (continued)

### (b) *Impairment allowance (continued)*

#### (ii) Collectively assessed loans

Impairment allowances are calculated on a collective basis for the following:

- in respect of losses which have been incurred but have not yet been identified as loans subject to individual assessment for impairment; and
- for homogeneous groups of loans that are not considered individually significant.

#### *Incurred but not yet identified impairment*

Where loans have been individually assessed and no evidence of loss has been identified individually, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future. The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan;
- management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience; and
- portfolios of small homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies.

#### (iii) Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

#### (iv) Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

### (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. Hang Seng Bank Limited ("the Bank") has dedicated standards, policies and procedures in place to control and monitor all such risks.

The Branch undertakes ongoing credit analysis and monitoring at several levels. Special attention is also paid to problem loans. Loan impairment allowances are made promptly where necessary and be consistent with established guidelines. Management regularly performs an assessment of the adequacy of the impairment by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics against historical trends and undertaking an assessment of current economics conditions. The Branch shares the economic model of the Bank for loans impairment assessment.



## Credit risk (continued)

### (d) Geographic distribution of exposures

(Expressed in Macau Patacas)

	<i>Banks</i>	<i>Governments</i>	<i>Public sector entities</i>	<i>Others</i>	<i>Total exposures</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances<sup>#</sup></i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Loans & commitments*									
– Macau	-	-	-	7,551,726,576	7,551,726,576	72,260	72,260	-	(9,183,860)
– Hong Kong	-	-	-	1,167,212,329	1,167,212,329	-	-	-	(2,187,999)
– Others	-	-	-	793,107,308	793,107,308	40,988,900	-	(1,003,310)	(614,264)
	-	-	-	9,512,046,213	9,512,046,213	41,061,160	72,260	(1,003,310)	(11,986,123)
Debt securities									
– Macau	-	-	-	-	-	-	-	-	-
– Hong Kong	-	-	-	-	-	-	-	-	-
– Others	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Financial derivatives									
– Macau	-	-	-	390,027,241	390,027,241				
– Hong Kong	-	-	-	390,027,241	390,027,241				
– Others	-	-	-	-	-				
	-	-	-	780,054,482	780,054,482				

\* Undrawn formal standby facilities, credit lines and other commitments to lend are included.

<sup>#</sup> 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 Macau Patacas)

	Gross loans and advances	Individually impaired loans and advances	Overdue loans and advances <sup>#</sup>	Individually assessed allowances	Collectively assessed allowances
Manufacturing	1,423,054,096	40,988,900	-	(1,003,310)	(2,836,225)
Electricity, gas and water	-	-	-	-	-
Construction and public works	4,306,570	-	-	-	(8,838)
Trade (wholesale and retail)	395,800,701	72,260	72,260	-	(812,100)
Restaurants, hotels and related activities	-	-	-	-	-
Transport, warehouse and communications	-	-	-	-	-
Individuals for house purchases	1,603,571,063	-	-	-	(3,290,792)
Individuals for other purposes	-	-	-	-	-
Others	2,455,051,032	-	-	-	(5,038,168)
	<u>5,881,783,462</u>	<u>41,061,160</u>	<u>72,260</u>	<u>(1,003,310)</u>	<u>(11,986,123)</u>

<sup>#</sup> 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 Macau Patacas)

	Repayable on demand	1 month or less but not repayable on demand	3 months or less but over 1 month	1 year or less but over 3 months	3 years or less but over 1 year	After 3 years	Indefinite period	Total
<b>Assets</b>								
Loans and advances to customers	1,376,904	1,387,164,824	380,705,175	467,305,827	1,142,054,519	2,502,100,643	72,260	5,880,780,152
Cash and balances with and loans and advances to banks	2,432,100,408	181,523,146	182,482,990	85,552,061	-	-	-	2,881,658,605
Certificates of deposits held	-	-	-	-	-	-	-	-
Securities issued by Macao SAR Government and/or AMCM	-	-	50,000,000	-	-	-	-	50,000,000
Other securities	-	-	-	-	-	-	-	-
<b>Liabilities</b>								
Deposits and balances of banks and financial institutions	732,856,320	2,275,985,564	599,048,615	2,792,472,604	-	-	52,300,000	6,452,663,103
Deposits from public sector entities	-	-	-	-	-	-	-	-
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Deposits from non-bank customers	1,837,000,341	137,165,393	48,843,610	22,378,496	-	-	-	2,045,387,840
Certificates of deposits issued	-	-	-	-	-	-	-	-
Other securities issued	-	-	-	-	-	-	-	-

## Credit risk (continued)

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

(Expressed in Macau Patacas)

	<i>Gross loans and advances</i>	<i>% of total loans and advances to banks</i>	<i>Collateral value</i>	<i>Individually impaired allowances</i>
Loans and advances to banks which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	-	-	-	-
- more than six months but not more than one year	-	-	-	-
- more than one year	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(Expressed in Macau Patacas)

	<i>Gross loans and advances</i>	<i>% of total loans and advances to non-bank customers</i>	<i>Collateral value</i>	<i>Individually impaired allowances</i>
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	-	-	-	-
- more than six months but not more than one year	-	-	-	-
- more than one year	72,260	-	-	-
	<u>72,260</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>72,260</u>	<u>-</u>	<u>-</u>	<u>-</u>

### (i) *Overdue other assets*

(Expressed in Macau Patacas)

	<i>Trade bills</i>	<i>Debt securities</i>	<i>Others</i>	<i>Total</i>
Other assets which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	-	-	-	-
- more than six months but not more than one year	-	-	-	-
- more than one year	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## 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 Treasury based on contractual or behavioural maturity directly or through the Asset and Liability Management Committee ("ALCO") Book of Head Office.

Treasury manages interest rate risks within the limits approved by Head Office and under the monitoring of ALCO.

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 Bank'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, back up systems and contingency business resumption plans.

## Foreign exchange risk

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

Structural foreign exchange limit of MOP50 million and standby limit of MOP5 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 Macau Patacas)*

	<i>Spot assets</i>	<i>Spot liabilities</i>	<i>Forward purchases</i>	<i>Forward sales</i>	<i>Net options position</i>	<i>Net long (or net short) position</i>
Chinese renminbi	154,395,056	(152,864,044)	-	-	-	1,531,012
Hong Kong dollars	5,941,541,147	(5,945,207,439)	367,296,167	(367,296,167)	-	(3,666,292)
Swiss franc	3,273,918	-	-	-	-	3,273,918
US dollars	2,210,771,234	(2,206,549,157)	154,141,420	(154,141,420)	-	4,222,077
Other foreign currencies	36,474,058	(36,460,520)	258,616,895	258,616,895	-	13,538
	<u>8,346,455,413</u>	<u>(8,341,081,160)</u>	<u>780,054,482</u>	<u>(780,054,482)</u>	<u>-</u>	<u>5,374,253</u>

## Liquidity risk

Liquidity risk is the risk that the Branch is unable to meet its payment obligations as they fall due. It is the Bank'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 Bank 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 and is reported to the Executive Committee and the Board of Directors.

Besides, the Branch prepares and monitors daily liquidity ratio in order to comply with the liquidity rule based on notice no. 006/93-AMCM.

The average weekly amount of cash in hand of the Branch 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 call liabilities;
- (ii) 2% of liabilities up to three months excluding call liabilities; and
- (iii) 1% of liabilities beyond three months.

The average weekly amount of the balances of 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.

The lower limit of daily variations in relation to the average amounts defined in the above shall not exceed 20% of those same averages. In order to assess the weekly averages of cash in hand and deposits with the AMCM, only positive variations in the part which does not exceed 20% can be taken into account.

During the annual reporting period of 2012:	
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	MOP 49,064,239
The arithmetic mean of the average weekly amount of cash in hand	MOP 481,014,962
The arithmetic mean of the specified liquid assets at the end of each month	MOP 935,598,698
The average ratio of specified liquid asset to total basic liabilities at the end of each month	51%
The arithmetic mean of one-month liquidity ratio in the last week of each month	73%
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 2012, 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 of HK\$5 each in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings BV	1,188,057,371 (62.14%)
HSBC Asia Holdings (UK) Limited	1,188,057,371 (62.14%)
HSBC Holdings BV	1,188,057,371 (62.14%)
HSBC Finance (Netherlands)	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings BV, which is a wholly-owned subsidiary of HSBC Asia Holdings (UK) Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings BV. HSBC Holdings BV is a wholly-owned subsidiary of HSBC Finance (Netherlands), which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, The Hongkong and Shanghai Banking Corporation Limited's interests are recorded as the interests of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV, HSBC Finance (Netherlands) and HSBC Holdings plc.

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 represent long positions. As at 31 December 2012, 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**

The members of the board of Directors of Hang Seng Bank Limited are set out below.

### **Independent Non-executive Chairman**

Raymond CH'EN Kuo Fung

### **Executive Directors**

Rose LEE Wai Mun (*Vice-Chairman and Chief Executive*)

Andrew FUNG Hau Chung

### **Non-executive Directors**

Anita FUNG Yuen Mei

Sarah Catherine LEGG

Vincent LO Hong Sui

Dorothy SIT KWAN Yin Ping

Peter WONG Tung Shun

### **Independent Non-executive Directors**

John CHAN Cho Chak

Marvin CHEUNG Kin Tung

CHIANG Lai Yuen

HU Zulu, Fred

Jenkin HUI

Eric LI Ka Cheung

Richard TANG Yat Sun

Michael WU Wei Kuo



# Consolidated capital adequacy ratio

## Hang Seng Bank Limited

The capital adequacy ratios as at 31 December 2012 were compiled in accordance with the Banking (Capital) Rules under section 98A of the Hong Kong Banking Ordinance for implementation of Basel II. The Bank used the advanced internal ratings-based approach to calculate its credit risk exposure. The standardised (operational risk) approach and internal models approach were used to calculate its operational risk and market risk respectively.

*(Figures in HK\$ million)*

	<u>2012</u>
<b>Capital base</b>	
Paid-up ordinary share capital	9,559
Total reserves included in core capital	46,249
Deductions from core capital	(14,806)
Total core capital	<u>41,002</u>
Supplementary capital	19,974
Deductions from supplementary capital	(13,841)
Total capital base after deduction	<u><u>47,135</u></u>
<b>Risk-weighted assets</b>	<u><u>336,017</u></u>
<b>Total reserves per balance sheet</b>	<u>78,940</u>
	<u>2012</u>
<b>Capital Ratio</b>	
Core capital ratio	12.2%
Capital adequacy ratio	14.0%

## Consolidated assets, liabilities and profits positions

### Hang Seng Bank Limited

*(Figures in HK\$ million)*

	<b>2012</b>
Total assets	1,077,096
Total liabilities	984,773
Total loans and advances	536,162
Total customer deposits including current, savings and other deposit accounts and certificates of deposit and other debt securities in issue	818,799
Pre-tax profit	22,113