Hang Seng Bank Limited
Macau Branch

Financial disclosure
(unaudited)

for the year ended 31 December 2015

Balance sheet as of 31 December 2015

(Expressed in Macau Patacas)

Assets	*Assets gross amount*	*Provisions, amortisation and devaluation*	*Assets net amount*
Cash	15,565,261.45	-	15,565,261.45
Deposits with AMCM	1,155,395,569.71	-	1,155,395,569.71
Cheques and bills receivables	27,823,476.30	-	27,823,476.30
Current deposits with other local credit institutions	929,553,889.46	-	929,553,889.46
Current deposits with other overseas credit institutions	859,861,603.78	-	859,861,603.78
Gold and silver	-	-	-
Other current assets	-	-	-
Loans and advances to customers	11,501,716,106.20	-	11,501,716,106.20
Placement with local credit institutions	50,000,000.00	-	50,000,000.00
Call and time deposits with overseas credit institutions	1,398,761,219.26	-	1,398,761,219.26
Equity securities, bonds and shareholdings	-	-	-
Applications & resources consigned to the bank	-	-	-
Debtors	-	-	-
Other investment	-	-	-
Financial investment	-	-	-
Immovable properties	-	-	-
Equipments	22,889,704.44	2,995,828.20	19,893,876.24
Deferred expenses	-	-	-
Organisation costs	-	-	-
Immovable properties in progress	-	-	-
Other fixed assets	-	-	-
Internal and adjustment accounts	31,940,867.01	-	31,940,867.01
Total	15,993,507,697.61	2,995,828.20	15,990,511,869.41

Balance sheet as of 31 December 2015 (continued)

(Expressed in Macau Patacas)

Liabilities	*Sub-total*	*Total*
Current deposits	1,869,159,150.18	
Call deposits	-	
Time deposits	1,120,788,429.39	2,989,947,579.57
Deposits from public sector entities	-	
Placement from local credit institutions	-	
Placement from other local institutions	-	
Foreign currencies debts	12,145,545,000.36	
Bond debts	-	
Creditors of applications & resources consigned to the bank	-	
Cheques and bills payable	2,850,033.43	
Creditors	-	
Other liabilities	-	12,148,395,033.79
Internal and adjustment accounts	65,930,182.55	
Risk reserve	130,270,659.81	
Capital	52,300,000.00	
Legal reserve	-	
Self-constituted reserve	-	
Other reserves	-	
Revaluation reserve	10,243.99	248,511,086.35
Retained earnings	467,426,796.66	
Profit and loss for the year	136,231,373.04	603,658,169.70
Total		15,990,511,869.41

Income statement
for the year ended 31 December 2015

Operating account

(Expressed in Macau Patacas)

Debit	*Amount*	*Credit*	*Amount*
Costs of credit operations	42,372,311.74	Income from credit operations	250,654,837.50
Personnel costs		Income from banking services	38,240,583.23
Directors and supervisory committee emoluments	-	Income from other banking services	-
Employee remuneration	18,612,139.88	Income from securities and equity investments	-
Staff benefit costs	1,593,150.10	Other banking income	-
Other personnel costs	8,306.20	Income from non-banking operations	-
Third party supply	401,249.44	Operation loss	-
Third party services	13,068,725.83		
Other banking costs	27,722,905.96		
Taxation	-		
Costs of non-banking operations	-		
Depreciation allowances	465,703.57		
Provision allowances	29,539,306.97		
Operating profit	155,111,621.04		
Total	288,895,420.73	Total	288,895,420.73

Profit and loss account

(Expressed in Macau Patacas)

Debit	*Amount*	*Credit*	*Amount*
Operating loss	-	Operating profit	155,111,621.04
Losses related to previous years	-	Profit related to previous years	-
Exceptional losses	-	Exceptional profits	-
Profit tax provision	18,880,248.00	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)	136,231,373.04		
Total	155,111,621.04	Total	155,111,621.04

Macau Branch
Operations and Results Summary for the 2015 Financial Year

Continued uncertainty about the global economy was reflected in the slower pace of economic activity in mainland China and Macau in 2015. Alongside ongoing reforms on the Mainland, the slowdown created many challenges for the banking industry in Macau.

In the difficult operating environment, we upheld our customer-centric sustainable growth strategy, with continued focus on leadership, management and customer relationship training to further enhance our service capabilities and deepen relationships with clients. We also continued to strengthen credit risk management and maintain high standards of corporate governance.

The principal activities of the Macau Branch during 2015 were the provision of banking services to both commercial and personal customers, including a diverse range of deposit and trade finance services, cross-border renminbi trade services, mortgage loans, corporate lending, remittance & foreign exchange services, bill collection services and insurance agency services. As at the end of the 2015 financial year, the Branch’s customer deposits and customer lending were MOP 2,990 million and MOP 11,502 million respectively. Profit after tax was MOP 136 million.

The Branch would like to take this opportunity to express sincere appreciation for the continuing contributions of staff and for support it has received from various government authorities, customers and industry peers in Macau.

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 2015 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 2015 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 2015 in accordance with Auditing Standards and Technical Standards on Auditing issued by the Government of the Macao Special Administrative Region and have issued an auditor's report with an unqualified opinion on these financial statements dated 11 May 2016.

The audited financial statements comprise the balance sheet as at 31 December 2015, 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 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

Macao, 11 May 2016

Cash flow statement
for the year ended 31 December 2015

(Expressed in Macau Patacas)

	Amount
Cash flow from operating activities	
Profit before income tax	155,111,621
Depreciation	465,704
Loss on disposal of tangible fixed assets	81,567
Loan impairment charge	29,539,307
Interest income	(250,654,838)
Interest expense	42,372,312
Interest received	263,402,735
Interest paid	(44,218,305)
Increase in gross loans and advances to customers	(2,524,260,079)
Decrease in other assets	15,176,079
Decrease in balances with banks with original maturity more than three months	423,928,822
Increase in deposits from customers	178,141,846
Increase in deposits and balances from banks	2,785,056,923
Increase in other liabilities	4,952,124
Cash inflow from operating activities before taxation	1,079,095,818
Macao complementary tax paid	(17,146,548)
Withholding tax refund received	-
Cash inflow from operating activities	1,061,949,270
Cash flows from investing activities	
Purchase of tangible fixed assets	(19,638,271)
Proceeds from redemption of investments	100,000,000
Payment for purchase of investments	(99,807,850)
Cash outflow from investing activities	(19,446,121)
Cash flows from financing activities	
Capital contribution from Head Office	52,300,000
Increase/(decrease) in cash and cash equivalents	1,094,803,149
Cash and cash equivalents at 1 January	3,166,007,397
Cash and cash equivalents at 31 December	4,260,810,546
For the purpose of 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	3,080,441,533
Deposit with AMCM	1,155,395,570
Items in course of collection from other banks	27,823,476
Items in course of transmission to other banks	(2,850,033)
	4,260,810,546

Off-balance sheet exposures

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

(Expressed in Macau Patacas)

As at 31 December 2015	*Amounts*
Bank guarantees	485,606,059
Commitments:	
Trade-related contingencies	555,900,421
Acceptance on the trade bills	989,706,792
Undrawn formal standby facilities, credit lines and other commitments to lend	4,772,500,512
	6,318,107,725

(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 Macau Patacas)

	Amounts
Not later than one year	5,831,245
Later than one year and not later than five years	7,097,759
	12,929,004

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 2015.

(Expressed in Macau Patacas)

	Contract amount	*Derivative assets*	*Derivative liabilities*	*Credit equivalent amounts*	*Risk-weighted amounts*
Exchange rate contracts – Forward contracts	1,074,058,260	5,894,727	5,894,727	16,635,310	9,981,186
Interest rate contracts	-	-	-	-	-
Equities contracts	-	-	-	-	-
Commodities contracts	-	-	-	-	-
Others	-	-	-	-	-

Significant accounting policies

a) ***Changes in accounting policy elected by the Branch***

During the year, the Branch re-assessed its impairment provisioning policy for loans and advances and considered that adopting the AMCM provisioning guidelines would result in a revised presentation in the statutory financial statements of the Branch, which would provide reliable and more relevant information to users of this set of financial statements on the provisioning consideration of loans and advances in the context of the applicable Macau juridical framework set out by the AMCM.

As a result, the Branch has elected to change its accounting policy in respect of loan impairment provisioning with effect from 1 January 2015 and applied the relevant change in accounting policy retrospectively by restating its comparative information.

Following the adoption of provisioning guidelines pursuant to AMCM Notice No. 18/93, specific provisions are made against the principal amounts of individual loans net of the value of any tangible security held where, in the opinion of the management of the Branch, recoverability of principal or interest in full is uncertain. General provision for all advances to customers and contingent liabilities, exclusive of those which specific provision has been provided for. General provision relates to exposures not separately identified but known from experience to exist in the credit portfolio. The provisions are made with reference to the requirements of AMCM, and are based on estimates made by the management of the Branch, which are reviewed periodically. Both specific and general provisions are deducted from “Loans and advances to customers” in the balance sheet. When there is no realistic prospect of recovery, the outstanding debt is written off.

Except for above change in the principal accounting policy, all the accounting policies applied by the Branch in preparing the financial statements are consistent with those applied in the previous financial year.

b) ***Revenue recognition***

(i) Interest income and interest expense

Interest income and expenses 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.

c) ***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 advance 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 of 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.

Significant accounting policies (continued)

d) Provision for bad and doubtful debts

Losses for impaired loans and advances are promptly recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment is assessed either for significant loans individually or for loan portfolios with similar credit risk characteristics collectively. For all loans that are considered individually significant, the Branch assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. For loans where impairment provisions are not individually provided, impairment provisions are calculated on a collective basis to cover losses which have been incurred but have not yet been identified. In determining the amount of provision, the Branch made references to the provisioning guidelines pursuant to AMCM Notice No. 18/93.

e) Available-for-sale investments

The available-for-sale investment of the Branch refers to its investment in AMCM monetary bill. Investments in AMCM monetary bill are classified as available-for-sale assets and 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, available-for-sale investments are measured at fair value 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 revaluation reserve except for foreign exchange gains and losses, which are recognised in the income statement.

Available-for-sale investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is then recognised in the income statement.

f) 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.

g) 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 Macao 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.

Significant accounting policies (continued)

h) 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, treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition and items in the course of collection from or in transmission to other banks.

i) 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.

j) 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.

k) 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.

l) 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 Head Office provides retirement benefits for certain staff members of the Branch through the Head Office's retirement benefit schemes. The contributions made by the Head Office for these staff members are included in the management fees expenses charged to the Branch.

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

Significant accounting policies (continued)

m) 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.

n) 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).

o) 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.

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 Macau Patacas)

	Amount
Interest income from Head Office and a subsidiary of Head Office	11,845,219
Interest expenses to Head Office	(29,548,472)
Fee and commission paid to Head Office	(11,228,527)
Management fee paid to Head Office	(9,419,690)
Operating expenses paid to other related companies	(1,978,830)
	(40,330,300)
Notional forward exchange rate contracts	537,029,130

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

(i) Assets

(Expressed in Macau Patacas)

	Amount
Cash and balances with banks	
- Demand deposits	859,861,604
- Placement	1,398,761,219
Other assets	
- Interest receivables	763,945
- Derivative financial instruments	65,002

(ii) Liabilities

(Expressed in Macau Patacas)

	Amount
Deposits and balances from banks	
- Demand and placements from banks	12,145,545,000
- Other balances from banks	961,880
Other liabilities	
- Interest payable	5,336,806
- Derivative financial instruments	5,959,729

Material related-party transactions (continued)

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

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

(Expressed in Macau Patacas)

	Amount
Executive officers	2,277,037

(d) ***Material transaction 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 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 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***

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. In addition, the Branch made references to the provisioning guidelines pursuant to AMCM Notice No. 18/93 in determining the impairment provision.

(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:

- the 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 currency of the loan if not denominated in local currency; and
- where available, the secondary market price for the debt.

Credit risk (continued)

(b) Impairment allowance (continued)

(i) Individually assessed loans (continued)

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate. In addition, the Branch made references to the provisioning guidelines pursuant to AMCM Notice No. 18/93 in determining the individually assessed loans.

(ii) Collectively assessed loans

Impairment allowances are calculated on a collective basis:

- to cover losses which have been incurred but have not yet been identified as loans subject to individual assessment; and

- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. This reflects impairment losses that the Branch has incurred as a result of events occurring before the reporting date, which the Branch is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the Branch, those loans are removed from the Branch and assessed on an individual basis for impairment. 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 appropriate allowance against the loss on an individual loan; and

- management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

- Branch made references to the provisioning guidelines pursuant to AMCM Notice No. 18/93, where collectively allowances shall be set up by the end of each year in order to reach a balance of not less than 1% of the aggregated value of the credits which are not overdue for more than 3 months.

Homogeneous groups of loans and advances

Portfolios of small homogeneous groups of loans are collectively assessed using roll rate or historical loss rate methodologies.

Credit risk (continued)

(b) Impairment allowance (continued)

(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. Where loans are secured, this is generally after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.redit risk (continued)

(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 excess is written back by reducing the loan impairment allowance account accordingly. The write-back 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. 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 Macau Patacas)

	Banks	*Governments*	*Public sector entities*	*Others*	*Total exposures*	*Individually impaired loans and advances*	*Overdue loans and advances#*	*Individually assessed allowances*	*Collectively assessed allowances*
Loans & commitments*									
– Macau	-	-	-	14,531,314,260	14,531,314,260	-	-	-	(113,573,989)
– Hong Kong	-	-	-	901,250,105	901,250,105	-	-	-	(7,799,038)
– Others	-	-	-	841,652,253	841,652,253	-	-	-	(8,897,633)
	-	-	-	16,274,216,618	16,274,216,618	-	-	-	(130,270,660)
Debt securities									
– Macau	-	-	-	-	-				
– Hong Kong	-	-	-	-	-				
– Others	-	-	-	-	-				
	-	-	-	-	-				
Financial derivatives									
– Macau	-	-	-	537,029,130	537,029,130				
– Hong Kong	-	-	-	537,029,130	537,029,130				
– Others	-	-	-	-	-				
	-	-	-	1,074,058,260	1,074,058,260				

* 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 Macau Patacas)

	Gross loans and advances	*Individually impaired loans and advances*	*Overdue loans and advances#*	*Individually assessed allowances*	*Collectively assessed allowances*
Manufacturing	737,177,796	-	-	-	(8,349,418)
Electricity, gas and water	-	-	-	-	-
Construction and public works	91,196,731	-	-	-	(1,032,912)
Trade (wholesale and retail)	2,947,873,524	-	-	-	(33,388,185)
Restaurants, hotels and related activities	22,589,558	-	-	-	(255,854)
Transport, warehouse and communications	-	-	-	-	-
Individuals for house purchases	2,880,813,952	-	-	-	(32,628,656)
Individuals for other purposes	232,930,327	-	-	-	(2,638,214)
Others	4,589,134,218	-	-	-	(51,977,421)
	11,501,716,106	-	-	-	(130,270,660)

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 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	13,005,615	2,356,538,646	418,989,682	908,891,519	2,356,409,548	5,317,610,436	-	11,371,445,446
Cash and balances with and loans and advances to banks	2,960,376,324	1,179,016,849	100,050,547	117,854,522	1,839,302	-	-	4,359,137,544
Certificates of deposits held	-	-	-	-	-	-	-	-
Securities issued by Macao SAR Government and/or AMCM	-	-	50,000,000	-	-	-	-	50,000,000
Other securities	-	-	-	-	-	-	-	-
Liabilities								
Deposits and balances of banks and financial institutions	2,644,632,313	2,653,244,754	367,665,593	6,480,964,220	-	-	-	12,146,506,880
Deposits from public sector entities	-	-	-	-	-	-	-	-
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Deposits from non-bank customers	1,866,920,450	902,149,596	101,183,711	117,854,522	1,839,301	-	-	2,989,947,580
Certificates of deposits issued	-	-	-	-	-	-	-	-
Other securities issued	-	-	-	-	-	-	-	-

Credit risk (continued)

(g) Overdue loans and advances to banks

(Expressed in Macau Patacas)

	Gross loans and advances	*% of total loans and advances to banks*	*Collateral value*	*Individually impaired allowances*
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	-	-	-	-
	-	-	-	-

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

(Expressed in Macau Patacas)

	Gross loans and advances	*% of total loans and advances to non-bank customers*	*Collateral value*	*Individually impaired allowances*
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	-	-	-	-
	-	-	-	-

(i) Overdue other assets

(Expressed in Macau Patacas)

	Trade bills	*Debt securities*	*Others*	*Total*
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	-	-	-	-
	-	-	-	-

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 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 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 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)

	Spot assets	*Spot liabilities*	*Forward purchases*	*Forward sales*	*Net options position*	*Net long (or net short) position*
Chinese renminbi	189,248,289	(188,335,888)	-	-		912,401
Hong Kong dollars	11,354,597,660	(11,358,029,240)	-	-		(3,431,580)
US dollars	2,702,485,759	(2,702,282,942)	271,435,600	(271,435,600)		202,817
Other foreign currencies	77,942,131	(77,889,239)	265,593,531	(265,593,531)		52,892
	14,324,273,839	(14,326,537,309)	537,029,131	(537,029,131)		(2,263,470)

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 Asset and Liability Management Committee ("ALCO") of Head Office 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. 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.

During the annual reporting period of 2015:	
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	MOP 72,058,963
The arithmetic mean of the average weekly amount of cash in hand	MOP 1,132,047,037
The arithmetic mean of the specified liquid assets at the end of each month	MOP 1,367,975,412
The average ratio of specified liquid asset to total basic liabilities at the end of each month	49%
The arithmetic mean of one-month liquidity ratio in the last week of each month	91%
The arithmetic mean of three-month liquidity ratio in the last week of each month	103%

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 2015, 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	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, representing 62.14% of the Bank's share capital.

All the interests stated above represent long positions. As at 31 December 2015, 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'IEN Kuo Fung

Executive Directors
Rose LEE Wai Mun *(Vice-Chairman and Chief Executive)*
Andrew FUNG Hau Chung
Nixon CHAN Lik Sang
Patrick CHAN Kwok Wai

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

Independent Non-executive Directors
John CHAN Cho Chak
Henry CHENG Kar Shun
CHIANG Lai Yuen
HU Zuliu, Fred
Irene LEE Yun Lien
Eric LI Ka Cheung
Richard TANG Yat Sun
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)	**2015**
Common Equity Tier 1 (“CET1”) Capital	
Shareholders' equity	120,963
- Shareholders’ equity per balance sheet	141,981
- Additional Tier 1 (“AT1”) perpetual capital instrument	(6,981)
- Unconsolidated subsidiaries	(14,037)
Regulatory deductions to CET1 capital	(30,687)
- Cash flow hedging reserve	(11)
- Changes in own credit risk on fair valued liabilities	(6)
- Property revaluation reserves*	(23,135)
- Regulatory reserve	(6,610)
- Intangible assets	(421)
- Defined benefit pension fund assets	(35)
- Deferred tax assets net of deferred tax liabilities	(115)
- Valuation adjustments	(354)
- Significant capital investments in unconsolidated financial sector entities	-
- Excess AT1 deductions	-
Total CET1 Capital	**90,276**
AT1 Capital	
Total AT1 capital before regulatory deductions	6,981
- Perpetual capital instrument	6,981
Regulatory deductions to AT1 capital	-
- Significant capital investments in unconsolidated financial sector entities	-
- Excess AT1 deductions	-
Total AT1 Capital	6,981
Total Tier 1 (“T1”) Capital	**97,257**
Tier 2 (“T2”) Capital	
Total T2 capital before regulatory deductions	15,746
- Term subordinated debt	2,325
- Property revaluation reserves*	10,411
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	3,010
Regulatory deductions to T2 capital	(315)
- Significant capital investments in unconsolidated financial sector entities	(315)
Total T2 Capital	**15,431**
Total Capital	**112,688**
Total reserves per balance sheet	**132,323**

** 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)	**2015**
Risk-weighted assets	**509,474**
Capital ratios	
CET1 capital ratio	17.7%
Tier 1 capital ratio	19.1%
Total capital ratio	22.1%

Consolidated assets, liabilities and profits positions

Hang Seng Bank Limited

(Figures in HK$ million)	**2015**
Total assets	1,334,429
Total liabilities	1,192,448
Total loans and advances	688,946
Total customer deposits including current, savings and other deposit accounts and certificates of deposit and other debt securities in issue	997,701
Pre-tax profit	30,488