



**恒生銀行**  
**HANG SENG BANK**

# **Banking Disclosure Statement**

**31 December 2023**

**(Unaudited)**

# BANKING DISCLOSURE STATEMENT *(unaudited)*

## Contents

	<b>Page</b>
<b>Introduction</b>	3
Purpose	3
Basis of preparation	3
The Banking Disclosure Statement	3
Loss-absorbing capacity disclosures	3
Overview of risk management	5
<b>Linkage to the 2023 Annual Report</b>	8
Basis of consolidation	8
Balance sheet reconciliation	9
<b>Capital and RWA</b>	12
Regulatory capital disclosures	12
Countercyclical capital buffer ratio	16
Leverage ratio	17
Overview of RWA and the minimum capital requirements	19
RWA flow statements	20
<b>Loss-absorbing capacity</b>	21
<b>Main features of regulatory capital instruments and non-capital LAC debt instruments</b>	24
<b>Credit risk</b>	29
Overview and responsibilities	29
Credit quality of assets	30
Credit risk under internal ratings-based approach	37
Credit risk under standardised approach	44
Credit risk mitigation	45
Model performance	48
<b>Counterparty credit risk exposures</b>	50
Counterparty credit risk management	50
Counterparty default risk under internal ratings-based approach	53
Counterparty default risk under standardised approach	54
<b>Market risk</b>	55
Overview and governance	55
Market risk measures	55
Market risk under standardised approach	58
Analysis of VaR, stressed VaR and incremental risk charge measures	59
Prudent valuation adjustment	60
<b>Liquidity information</b>	60
<b>Other disclosures</b>	65
Interest rate exposures in the banking book	65
Mainland activities exposures	67
International claims	67
Foreign exchange exposures	68
<b>Other information</b>	69
Abbreviations	69

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Tables

Ref	Title	Page	Ref	Title	Page
1	KM1 – Key prudential ratios	4	31	CRE2 – Wholesale IRB credit risk models	38
2	List of subsidiaries outside the regulatory scope of consolidation	8	32	CRE3 – Material retail IRB credit risk models	39
3	CC2 – Reconciliation of regulatory capital to balance sheet	9	33.1	CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Wholesale)	41
4	LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	10	33.2	CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Retail)	42
5	LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements	11	33.3	CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Total)	42
6	CC1 – Composition of regulatory capital	12	34	CR10 – Specialised lending under supervisory slotting criteria approach – other than HVCRE	43
7	CCyB1 – Geographical distribution of credit exposures used in countercyclical capital buffer	16	35	CR10 – Equity exposures under the simple risk-weight method	43
8	LR2 – Leverage ratio	17	36	CR5 – Credit risk exposures by asset classes and by risk weights – for STC approach	44
9	LR1 – Summary comparison of accounting assets against leverage ratio exposure measure	18	37	CR3 – Overview of recognised credit risk mitigation	46
10	OV1 – Overview of RWA	19	38	CR7 – Effects on RWA of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach	46
11	CR8 – RWA flow statement of credit risk exposures under IRB approach	20	39	CR4 – Credit risk exposures and effects of recognised credit risk mitigation – for STC approach	47
12	MR2 – RWA flow statement of market risk exposures under IMM approach	20	40.1	CR9 – Back-testing of PD per portfolio – for IRB approach (Wholesale)	48
13	KM2(A) – Key metrics – LAC requirements for material subsidiaries	21	40.2	CR9 – Back-testing of PD per portfolio – for IRB approach (Retail)	49
14	TLAC1(A) – TLAC composition	22	41	CCR1 – Analysis of counterparty default risk exposures (other than those to CCPs) by approaches	51
15	TLAC2 – Hang Seng Bank Limited creditor ranking	23	42	CCR2 – CVA capital charge	51
16	CCA(A) – Main features of regulatory capital instruments and non-capital LAC debt instruments	24	43	CCR8 – Exposures to CCPs	52
17	CR1 – Credit quality of exposures	30	44	CCR5 – Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)	52
18	CR2 – Changes in defaulted loans and debt securities	30	45	CCR4 – Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach	53
19	CRB1 – Exposures by geographical location	30	46	CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach	54
20	CRB2 – Exposures by industry	31	47	MR1 – Market risk under STM approach	58
21	CRB3 – Exposures by residual maturity	31	48	MR3 – IMM approach values for market risk exposures	59
22	CRB4 – Credit-impaired exposures and impairment allowances and write-offs by industry	32	49	MR4 – Comparison of VaR estimates with gains or losses	59
23	CRB5 – Credit-impaired exposures and impairment allowances and write-offs by geographical location	32	50	PV1 – Prudent valuation adjustments	60
24	CRB6 – Aging analysis of accounting past-due unimpaired exposures	33	51	LIQA – LCRs and NSFRs on three liquidity reporting bases	60
25	CRB7 – Breakdown of forborne loans between credit impaired and not credit impaired	33	52	Average liquidity coverage ratio	61
26	Gross loans and advances to customers by geographical location	33	53	Total weighted amount of high quality liquid assets	61
27	Gross loans and advances to customers by industry sector	34	54	LIQ1 – Liquidity coverage ratio – for category 1 institution	62
28	Overdue loans and advances to customers	35	55	LIQ2 – Net stable funding ratio – for category 1 institution	63
29	Off-balance sheet exposures other than derivative transactions	36	56	IRRBB1 – Quantitative information on interest rate risk in banking book	66
30	CRE1 – Percentage of total EAD and RWA covered by IRB approach	37	57	Mainland activities exposures	67
			58	International claims	67
			59	Net structural foreign currency exposures	68
			60	Non-structural foreign currency positions	68

Prefixes contained in the table names, where applicable, represent the reference codes of the standard disclosure templates and tables issued by the HKMA.

Where applicable, RWA in tables 1, 6, 7, 13 and 14 are applied with 1.06 scaling factor, while RWA in other tables are before such application.

## **BANKING DISCLOSURE STATEMENT** (unaudited) (continued)

### **Introduction**

#### **Purpose**

The information contained in this document is for Hang Seng Bank Limited ('the Bank') and its subsidiaries (together 'the Group'). It should be read in conjunction with the Group's 2023 Annual Report. The Group's Annual Report and the Banking Disclosure Statement, taken together, comply with both the Banking (Disclosure) Rules ('BDR') made under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ('LAC Rules') made under section 19(1) of the Financial Institutions (Resolution) Ordinance ('FIRO').

These banking disclosures are governed by the Group's disclosure policy and internal controls framework, which has been approved by the Board. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the Banking Disclosure Statement is not required to be externally audited, the document has been subject to independent review by the Group's Global Internal Audit team and has been approved by the Audit Committee as delegated by the Board.

#### **Basis of preparation**

Except where indicated otherwise, the financial information contained in this Banking Disclosure Statement has been prepared on a consolidated basis. The basis of consolidation for regulatory purposes is different from that for accounting purposes. Information regarding subsidiaries that are not included in the consolidation for regulatory purposes is set out in the 'Basis of consolidation' section in this document.

The information in this document is not audited and does not constitute statutory accounts.

Certain financial information in this document is extracted from the statutory accounts for the year ended 31 December 2023 which will be delivered to the Registrar of Companies and the Hong Kong Monetary Authority ('HKMA'). The Auditors expressed an unqualified opinion on those statutory accounts in their report dated 21 February 2024. The Auditor's Report did not include a reference to any matters to which the auditor drew any attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622). The Group's 2023 Annual Report, which include the statutory accounts, can be viewed on our website, [www.hangseng.com](http://www.hangseng.com).

#### **The Banking Disclosure Statement**

The Group's Banking Disclosure Statement at 31 December 2023 comprises Pillar 3 information required under the framework of the Basel Committee on Banking Supervision ('BCBS'). The disclosures are made in accordance with the latest BDR and the LAC Rules issued by the HKMA.

According to the BDR and the LAC Rules, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures can be found in the Regulatory Disclosures section of our website, [www.hangseng.com](http://www.hangseng.com).

The Banking Disclosure Statement includes the majority of the information required under the BDR and the LAC Rules. The remainder of the disclosure requirements are covered in the Group's 2023 Annual Report which can be found in the Investor Relations – Financial Statements section of our website, [www.hangseng.com](http://www.hangseng.com).

<b>Disclosure requirements covered in the Group's 2023 Annual Report:</b>	<b>Reference in Annual Report (Printed version)</b>	<b>Reference in Annual Report (Text version)</b>
– BDR Section 16(1)(b) - Operations of the Group	Note 19 on pages 225 to 228	Note 19 on pages 265 to 268
– BDR Section 16FJ - LIQA : Liquidity risk management	Pages 90 to 94 and note 20 on pages 228 to 230	Pages 105 to 110 and note 20 on pages 269 to 270
– BDR Section 16J - The Group's definition of 'Impaired' and 'Forborne' and the methods adopted for determining impairments	Note 2(j) on pages 200 to 204	Note 2(j) on pages 235 to 242
– BDR Sections 16ZS, 16ZT, 16ZU, 16ZV - Remuneration	Pages 156 to 157, Pages 159 to 162	Pages 188 to 190, Pages 193 to 195
– BDR Section 44 - Assets used as security	Note 28 on pages 237 to 238	Note 28 on page 276
– BDR Section 46 - The general disclosure of the major business activities and product lines	Note 5 on pages 216 to 217 and note 19 on pages 225 to 228	Note 5 on pages 257 to 258 and note 19 on pages 265 to 268
– BDR Section 52 - Corporate governance	Pages 134 to 177	Pages 167 to 211

#### **Loss-absorbing capacity disclosures**

The basis of calculating the Group's loss-absorbing capacity ('LAC') and risk-weighted asset ('RWA') is in accordance with the LAC Rules. The disclosures are made in accordance with the standard disclosure templates as issued by the HKMA.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
	Footnotes					
<b>Regulatory capital (HK\$m)</b>		<i>1</i>				
1	Common Equity Tier 1 ('CET1')	<b>122,259</b>	118,710	117,229	116,999	116,422
2	Tier 1 ('T1')	<b>134,003</b>	130,454	128,973	128,743	128,166
3	Total capital	<b>144,233</b>	140,682	139,291	138,946	138,676
<b>RWA (HK\$m)</b>		<i>1</i>				
4	Total RWA	<b>674,269</b>	677,322	696,197	722,516	764,726
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>		<i>1</i>				
5	CET1 ratio (%)	<b>18.1</b>	17.5	16.8	16.2	15.2
6	T1 ratio (%)	<b>19.9</b>	19.3	18.5	17.8	16.8
7	Total capital ratio (%)	<b>21.4</b>	20.8	20.0	19.2	18.1
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>		<i>1</i>				
8	Capital conservation buffer requirement (%)	<b>2.500</b>	2.500	2.500	2.500	2.500
9	Countercyclical capital buffer ('CCyB') requirement (%)	<b>0.846</b>	0.835	0.828	0.813	0.816
10	Higher loss absorbency requirements (%) (applicable only to Global systemically important authorised institution ('G-SIBs') or Domestic systemically important authorised institution ('D-SIBs'))	<b>1.000</b>	1.000	1.000	1.000	1.000
11	Total authorised institution ('AI')-specific CET1 buffer requirements (%)	<b>4.346</b>	4.335	4.328	4.313	4.316
12	CET1 available after meeting the AI's minimum capital requirements (%)	<b>13.4</b>	12.8	12.0	11.2	10.1
<b>Basel III leverage ratio ('LR')</b>		<i>3</i>				
13	Total LR exposure measure (HK\$m)	<b>1,568,958</b>	1,546,074	1,576,897	1,665,439	1,752,201
14	LR (%)	<b>8.5</b>	8.4	8.2	7.7	7.3
<b>Liquidity Coverage Ratio ('LCR')</b>		<i>4</i>				
15	Total high quality liquid assets ('HQLA') (HK\$m)	<b>383,868</b>	361,082	417,983	471,195	415,870
16	Total net cash outflows (HK\$m)	<b>147,600</b>	150,750	170,826	171,100	152,258
17	LCR (%)	<b>260.6</b>	240.1	245.0	276.7	275.3
<b>Net Stable Funding Ratio ('NSFR')</b>		<i>5</i>				
18	Total available stable funding ('ASF') (HK\$m)	<b>1,159,272</b>	1,132,365	1,149,715	1,192,396	1,215,966
19	Total required stable funding ('RSF') (HK\$m)	<b>688,342</b>	682,837	712,313	728,638	742,246
20	NSFR (%)	<b>168.4</b>	165.8	161.4	163.6	163.8

- The regulatory capital, RWA, risk-based regulatory capital ratios and additional CET1 buffer requirements above are based on or derived from the information as contained in the 'Capital Adequacy Ratio - (MA(BS)3)' return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the Banking (Capital) Rules ('BCR').*
- The jurisdictional CCyB of Hong Kong used in the calculation of CCyB requirement has been 1.0% since 31 March 2020. The jurisdictional CCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 2.5% at 31 December 2023.*
- The Basel III LRs are disclosed in accordance with the information contained in the 'Leverage Ratio - (MA(BS)27)' return submitted to the HKMA under the requirements specified in Part 1C of the BCR.*
- The LCRs shown are the simple average values of all working days in the reporting periods and are made in accordance with the requirements specified in the 'Liquidity Position - (MA(BS)1E)' return submitted to the HKMA under rule 11(1) of the Banking (Liquidity) Rules ('BLR').*
- The NSFR disclosures are made in accordance with the information contained in the 'Stable Funding Position - (MA(BS)26)' return submitted to the HKMA under the requirements specified in rule 11(1) of the BLR.*

## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

### **Overview of Risk Management**

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#### **Our risk management framework**

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our risk culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continuous monitoring of the risk environment, and promotes risk awareness and sound operational and strategic decision making and escalation process. It also supports a consistent approach to identify, assess, manage and report the risks we accept and incur in our activities, with clear accountabilities. We continue to enhance our approach to manage risk, through our activities with regard to people and capabilities; governance; reporting and management information; credit risk management models; and data. Further information on our risk management framework is set out on page 43 of the Group's 2023 Annual Report\*. The measurement and management of principal risks facing the Group is described on pages 50 to 52 of the Group's 2023 Annual Report\*.

#### **Risk culture**

We recognise the importance of a strong risk culture. Our culture refers to our shared attitudes, values and standards that shape behaviours including those related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

Our risk culture is further reinforced by our approach to remuneration. Individual awards, including those for senior executives, are based on compliance with our values and the achievement of financial and non-financial objectives that are aligned to our risk appetite and strategy.

#### **Risk governance**

The Board has ultimate responsibility for the effective management of risk and approves the risk appetite. It is advised on risk-related matters by the Risk Committee.

Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework resides with the Group's Chief Risk and Compliance Officer ('CRCO'), supported by the Group's Risk Management Meeting ('RMM').

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All employees have a role to play in risk management. These roles are defined using the Three Lines of Defence model, which takes into account the Group's business and functional structures.

We use a defined executive risk governance structure to ensure appropriate oversight and accountability for risk, which facilitates the reporting and escalation to the RMM.

#### **Risk appetite**

Risk appetite is a key component of our management of risk. It sets out the level and types of risk that we are willing to take in achieving our strategic objectives. Within the Group, risk appetite is managed through our risk appetite framework and articulated through a Risk Appetite Statement ('RAS'), which is approved by the Board on the advice of the Group's Risk Committee.

The RMM regularly reviews the Group's actual risk appetite profile against the pre-defined Risk Appetite and Risk Tolerance thresholds set out in the RAS on a monthly basis to enable senior management to monitor the risk profile and guide business activities in order to balance risk and return. The actual risk appetite profile is also reported to the Risk Committee and the Board by the CRCO including any material deviation and the related management mitigating actions.

The Group's risk appetite informs our strategic and financial planning process, defining the desired forward-looking risk profile of the Group. It is also integrated within other risk management tools, such as the top and emerging risks report and stress testing, to ensure consistency in risk management. Information on our risk management tools is set out on pages 45 to 46 of the Group's 2023 Annual Report\*. Details on the Group's overarching risk appetite are set out in our risk appetite framework.

\* Refers to printed version. The page reference of Annual Report (text version) is as follows:

<i>Annual Report (Printed version)</i>	<i>Annual Report (Text version)</i>
<i>Page 43</i>	<i>Pages 34 to 35</i>
<i>Pages 45 to 46</i>	<i>Pages 38 to 40</i>
<i>Pages 50 to 52</i>	<i>Pages 48 to 52</i>

## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

### **Stress testing**

The Group operates a wide-ranging stress testing programme that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators and those to meet our own internal requirements. Our stress testing is supported by dedicated teams and infrastructure.

Our testing programme assesses the resilience of our balance sheet and our capital strength through a rigorous examination of our resilience to external shocks. Both the internal and regulatory driven stress tests help us to understand and mitigate risks, and informs our decision about capital and liquidity levels.

Stress testing results are reported, where appropriate, to the RMM and Risk Committee which oversees the Group's stress testing programme.

### **The Group's Risk and Compliance functions**

The Group's Risk and Compliance function, headed by the Group's CRCO, is responsible for risk management framework. This responsibility includes establishing policy, monitoring risk profiles and forward-looking risk identification and management capabilities. The Group's Risk and Compliance function is made up of sub-functions covering both financial and non-financial risks. It is independent from business functions in order to provide challenge, appropriate oversight and balance in risk versus return decisions.

### **Risk management and internal control systems**

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and risk types they are willing to accept in achieving the Group's business objectives.

On behalf of the Board, the Group's Audit Committee has responsibility for oversight of risk management and internal controls over financial reporting, and the Group's Risk Committee has responsibility for oversight of risk management and internal controls other than for financial reporting.

The Directors, through the Group's Risk Committee and the Group's Audit Committee receive regular updates and confirmation that management has taken or is taking the necessary actions to remediate any failings or weaknesses identified through the operation of our framework of controls.

### **Regulatory reporting processes and controls**

The quality of regulatory reporting remains a key priority for management. We are progressing with a comprehensive programme to strengthen our processes, improve consistency, and enhance controls across regulatory reports, focusing on our prudential regulatory reporting and other priority regulatory reports.

### **Risk measurement and reporting systems**

Our risk measurement and reporting systems are designed to help ensure that risks are comprehensively captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed, and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.

Risk measurement and reporting systems are also subject to a governance framework designed to ensure that their build and implementation are fit for purpose and functioning appropriately. Risk information systems development is a key responsibility of the Global Risk and Compliance function, while the development and operation of risk rating and management systems and processes are ultimately subject to the oversight of the Board.

The ongoing programme to strengthen our regulatory reporting also considers the efficacy of our systems. Potential enhancements identified through this programme will be assessed and, where appropriate, implemented under the governance framework.

We remain committed to investing in the reliability and resilience of our IT systems and critical services, including those provided by third parties, that support all parts of our business. We do so to help protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. In our approach to defend against these threats, we invest in business and technical controls to help us detect, manage and recover from issues, including data loss, in a timely manner.

Risk measurement and reporting structures deployed at Group level are applied throughout global businesses and major operating subsidiaries through a common operating model for integrated risk management and control. This model sets out the respective responsibilities of Group, global business and market level risk and compliance function in respect of risk governance and oversight, approval authorities and lending guidelines, scorecards, management information and reporting, and relations with third parties, such as regulators, rating agencies and auditors.

## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

### **Risk analytics and model governance**

The Group's Risk and Compliance function manages a number of analytics disciplines supporting the development and management of models, including those for risk rating, scoring, economic capital and stress testing covering different risk types and business segments. The analytics functions formulate technical responses to industry developments and regulatory policy in the field of risk analytics, supports the development of the global risk models of HSBC Holdings together with its subsidiary undertakings ('HSBC Group'), develop local risk models and oversee their use around the Group toward our implementation targets for internal ratings-based ('IRB') approaches.

The HSBC Group Model Risk Committee ('MRC') is the primary committee responsible for the oversight of Model Risk within HSBC Group. It serves an important role in providing strategic direction on the management of models and their associated risks to HSBC's businesses globally and is an essential element of the governance structure for model risk management. The MRC is supported by Model Oversight Forums ('MOFs') operating within HSBC and the Group which are responsible for model risk management within their functional areas, including Wholesale Credit Risk, Traded Risk and Retail Credit Risk, etc.

Oversight of Model Risk within the Group is primarily under RMM supported by various forums/ workgroups. The Group's Local MOFs consist of the Wholesale Credit and Traded Risk MOF and the Retail Credit Risk MOF, which operate under comparable terms of reference as the HSBC MOFs. They are accountable to RMM and HSBC MOFs. The Local MOFs meet regularly and report to RMM. They are chaired by the Heads of Risk teams and membership includes businesses, risk and finance. The MOFs identify emerging risks for all aspects of the risk rating system, ensuring that model risk is managed within our RAS, and formally advises RMM / HSBC MOFs on any material model-related issues.

Models are also subject to an independent validation process and governance oversight by the Model Risk Management team within HSBC Group. The team provides robust challenge to the modelling approaches used across the HSBC Group, including the Group, and ensures that the performance of those models is transparent and that any limitations are visible to key stakeholders. The development and use of data and models to meet local requirements are the responsibility of global businesses or functions, as well as the Group under the governance of our own management, subject to the HSBC Group policy and oversight.

Regulatory and other expectations continue to evolve with regards to our capability and practice of model risk management. We continue to enhance model risk management practices and invest in developing and embedding these capabilities.

Further information is available on page 109 of the Group's 2023 Annual Report\*.

\* Refers to printed version. The page reference of Annual Report (text version) is pages 134 to 135.



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Linkage to the 2023 Annual Report

#### Basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ('HKFRS'), as described in note 1 on the consolidated financial statements in the Group's 2023 Annual Report.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the BCR.

Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by regulators and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for AI under the BCR and the Banking Ordinance. The capital invested by the Group in these subsidiaries is deducted from the capital base subject to certain thresholds, as determined in accordance with Part 3 of the BCR.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 31 December 2023.

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 31 December 2023.

The Group operates subsidiaries in different territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

The Group may need to maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. As at 31 December 2023, the Group is not required to restrict any reserves which can be distributed to shareholders as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the required regulatory reserve balance.

There are no relevant capital shortfalls in any of the Group's subsidiaries which are not included in its consolidation group for regulatory purposes as at 31 December 2023.

A list of subsidiaries not included in consolidation for regulatory purposes is shown below:

Table 2: List of subsidiaries outside the regulatory scope of consolidation

	Principal activities	As at 31 Dec 2023	
		Total assets*	Total equity*
		HK\$m	HK\$m
Hang Seng Investment Management Ltd	Fund management	268	231
Hang Seng Investment Services Ltd	Provision of investment commentaries	9	9
Hang Seng Securities Ltd	Stockbroking	1,866	796
Hang Seng Insurance Co. Ltd and its subsidiaries	Retirement benefits and life assurance	185,337	10,892
Hang Seng Qianhai Fund Management Co. Ltd	Fund raising, fund sales and asset management	201	176

\* Prepared in accordance with HKFRS

The approaches used in calculating the Group's regulatory capital and RWA are in accordance with the BCR. The Group uses the advanced IRB approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme ('CIS') exposures, the Group uses the look-through approach ('LTA') to calculate the RWA. For counterparty credit risk ('CCR'), the Group uses the standardised (counterparty credit risk) ('SA-CCR') approach to calculate its default risk exposures for derivatives and the comprehensive approach for securities financing transactions ('SFTs'). For market risk, the Group uses an internal models ('IMM') approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) ('STM') approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) ('STO') approach to calculate its operational risk.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Balance sheet reconciliation

The following table expands the balance sheet under the regulatory scope of consolidation to show separately the capital components that are reported in the 'Composition of regulatory capital' template in Table 6. The capital components in this table contain a reference that shows how these amounts are included in Table 6.

Table 3: CC2 – Reconciliation of regulatory capital to balance sheet

	a	b	c
	Balance sheet as in published financial statements As at 31 Dec 2023 HK\$m	Under regulatory scope of consolidation As at 31 Dec 2023 HK\$m	Cross-referenced to Definition of Capital Components
<b>Assets</b>			
Cash and balances at central banks	10,564	10,564	
Trading assets	44,018	44,013	
Derivative financial instruments	14,959	15,051	
Financial assets mandatorily measured at fair value through profit or loss	156,872	242	
Reverse repurchase agreements – non-trading	30,202	32,233	
Placings with and advances to banks	83,756	80,015	
Loans and advances to customers	860,406	860,407	
<i>of which: Impairment allowances eligible for inclusion in Tier 2 ('T2') capital</i>		219	(1)
Financial investments	405,792	397,452	
Investment in subsidiaries	-	7,061	
Subordinated loans to subsidiaries	-	1,045	(2)
Interest in associates	2,363	-	
Investment properties	12,000	8,959	
Premises, plant and equipment	27,075	27,067	
Intangible assets	4,335	4,004	(3)
Other assets	39,752	22,341	
<i>of which: Deferred tax assets ('DTAs')</i>		481	(4)
<b>Total assets</b>	<b>1,692,094</b>	<b>1,510,454</b>	
<b>Liabilities</b>			
Deposits from banks	19,707	19,707	
Current, savings and other deposit accounts	1,153,062	1,154,662	
Repurchase agreements – non-trading	12,767	12,767	
Trading liabilities	35,227	35,227	
Derivative financial instruments	14,478	14,464	
<i>of which: Gains and losses due to changes in own credit risk on fair valued liabilities</i>		2	(5)
Financial liabilities designated at fair value	45,633	45,369	
<i>of which: Gains and losses due to changes in own credit risk on fair valued liabilities</i>		2	(6)
Certificates of deposit in issue	9,857	9,857	
Other liabilities	33,759	23,150	
Insurance contract liabilities	167,264	-	
Current tax liabilities	990	612	
Deferred tax liabilities	3,675	3,660	
<i>of which: Deferred tax liabilities related to intangible assets</i>		616	(7)
Subordinated liabilities	27,491	27,491	
<b>Total liabilities</b>	<b>1,523,910</b>	<b>1,346,966</b>	
<b>Equity</b>			
Share capital	9,658	9,658	(8)
Retained profits	126,624	122,007	(9)
<i>of which: Revaluation gains of investment properties</i>		6,078	(10)
<i>Valuation adjustments</i>		152	(11)
Other equity instruments	11,744	11,744	(12)
Other reserves	20,105	20,079	(13)
<i>of which: Cash flow hedge reserve</i>		(37)	(14)
<i>Revaluation reserve of properties</i>		18,492	(15)
<i>Valuation adjustments</i>		1	(16)
<b>Total shareholders' equity</b>	<b>168,131</b>	<b>163,488</b>	
Non-controlling interests	53	-	
<b>Total equity</b>	<b>168,184</b>	<b>163,488</b>	
<b>Total equity and liabilities</b>	<b>1,692,094</b>	<b>1,510,454</b>	

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 4: LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	g
	Carrying values of items:						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitisation framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
As at 31 Dec 2023	Footnotes	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
<b>Assets</b>							
Cash and balances at central banks		10,564	10,564	10,564	-	-	-
Trading assets		44,018	44,013	4	-	-	44,009
Derivative financial instruments	1	14,959	15,051	-	14,700	-	15,051
Financial assets mandatorily measured at fair value through profit or loss		156,872	242	131	111	-	-
Reverse repurchase agreements – non-trading		30,202	32,233	-	32,233	-	-
Placings with and advances to banks		83,756	80,015	80,015	-	-	-
Loans and advances to customers		860,406	860,407	860,407	-	-	-
Financial investments		405,792	397,452	397,452	-	-	-
Investment in subsidiaries		-	7,061	7,061	-	-	-
Subordinated loans to subsidiaries		-	1,045	-	-	-	1,045
Interest in associates		2,363	-	-	-	-	-
Investment properties		12,000	8,959	8,959	-	-	-
Premises, plant and equipment		27,075	27,067	27,067	-	-	-
Intangible assets	2	4,335	4,004	-	-	-	3,388
Other assets	2, 3	39,752	22,341	19,499	2,361	-	481
<b>Total assets</b>		<b>1,692,094</b>	<b>1,510,454</b>	<b>1,411,159</b>	<b>49,405</b>	<b>-</b>	<b>59,060</b>
<b>Liabilities</b>							
Deposits from banks		19,707	19,707	-	-	-	19,707
Current, savings and other deposit accounts		1,153,062	1,154,662	-	-	-	1,154,662
Repurchase agreements – non-trading		12,767	12,767	-	12,767	-	-
Trading liabilities		35,227	35,227	-	-	-	35,227
Derivative financial instruments	1	14,478	14,464	-	14,464	-	14,464
Financial liabilities designated at fair value		45,633	45,369	-	-	-	46
Certificates of deposit in issue		9,857	9,857	-	-	-	9,857
Other liabilities	3	33,759	23,150	-	681	-	22,469
Insurance Contract Liabilities		167,264	-	-	-	-	-
Current tax liabilities		990	612	-	-	-	612
Deferred tax liabilities		3,675	3,660	-	-	-	3,660
Subordinated liabilities		27,491	27,491	-	-	-	27,491
<b>Total liabilities</b>		<b>1,523,910</b>	<b>1,346,966</b>	<b>-</b>	<b>27,912</b>	<b>-</b>	<b>49,737</b>

1 Derivative financial instruments are subject to more than one regulatory risk category. As a result, the amounts shown in column (b) do not equal the sum of columns (c) to (g).

2 The assets disclosed in column (g) are net of any associated deferred tax liability.

3 The difference in the carrying values reported in the financial statements in column (a) and the scope of regulatory consolidation in column (b) mainly represents (i) differences between the financial and regulatory scope of consolidation, and (ii) the amounts of acceptance and endorsements being included as contingencies in accordance with the BCR, whilst for accounting purposes, acceptances and endorsements are recognised on the balance sheet.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 5: LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e	
		Items subject to:					
		credit risk framework		securitisation framework	counterparty credit risk framework market risk framework		
		Total HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
As at 31 Dec 2023	Footnotes						
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1	1,505,189	1,411,159	-	49,405	59,060
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	2	63,185	-	-	27,912	49,737
3	Total net amount under regulatory scope of consolidation		1,442,004	1,411,159	-	21,493	9,323
4	Off-balance sheet ('OBS') amounts and potential future exposures ('PFE') for counterparty risk		522,527	154,248	-	11,710	-
5	Differences due to impairments		13,350	13,350	-	-	-
6	Differences due to recognised collateral		(9,028)	(9,028)	-	-	-
7	Differences arising from off-balance sheet amounts recognised in regulatory exposures		(368,279)	-	-	-	-
8	Differences due to a factor $\alpha$ used for computing default risk exposure and application of credit risk mitigation ('CRM')		(3,831)	-	-	(3,831)	-
9	Differences arising from capital deductions		(616)	-	-	-	-
10	Exposure amounts considered for regulatory purposes		1,596,127	1,569,729	-	29,372	9,323

1 The amount shown in column (a) in Table 5 above is equal to column (b) less column (g) in the Total assets row in Table 4.

2 The amount shown in column (a) in Table 5 above is equal to column (b) less column (g) in the Total liabilities row in Table 4.

### Explanations of differences between accounting and regulatory exposure amounts

#### Off-balance sheet amounts and potential future exposures for counterparty risk

OBS amounts subject to credit risk regulatory framework include undrawn portions of committed facilities, various trade finance commitments and guarantees. We apply credit conversion factors ('CCF') to these items and add PFE for CCR.

#### Differences due to impairments

The carrying value of assets is net of impairments. From the regulatory perspective, exposure value under the IRB approach and non-defaulted exposure under the standardised approach are before deducting impairments.

#### Differences due to recognised collateral

Exposure value under the standardised approach is calculated after deducting CRM whereas accounting value is before such deductions.

#### Differences due to a factor $\alpha$ used for computing default risk exposure and application of credit risk mitigation

Under the SA-CCR approach, a factor  $\alpha$  of 1.4 is applied to the sum of replacement cost ('RC') and PFE in arriving at the default risk exposure. Differences also arise between accounting carrying values and regulatory exposure as a result of the application of CRM.

### Explanations of differences between accounting fair value and regulatory prudent valuation

Fair value is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Some fair value adjustments already reflect valuation uncertainty to some degree. These are market data uncertainty, model uncertainty and concentration adjustments.

However, it is recognised that a variety of valuation techniques using stressed assumptions and combined with the range of plausible market parameters at a given point in time may still generate unexpected uncertainty beyond fair value.

A series of additional valuation adjustments ('AVAs') are therefore required to reach a specified degree of confidence (the 'Prudent Value') set by regulators that differs both in terms of scope and measurement from the Group's own quantification for disclosure purposes.

AVAs should consider at the minimum: market price uncertainty, bid-offer (close-out) uncertainty, model risk, concentration, administration costs, unearned credit spreads and investing and funding costs.

AVAs are not limited to level 3 exposures, for which a 95% uncertainty range is already computed and disclosed, but must also be calculated for any exposure for which the exit price cannot be determined with a high degree of certainty. Table 50 presents further information on the prudent valuation adjustment ('PVA').

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Capital and RWA

#### Regulatory capital disclosures

The following table sets out the detailed composition of the Group's regulatory capital using the composition of regulatory capital disclosures template as specified by the HKMA.

Table 6: CC1 – Composition of regulatory capital

	a	b
		Cross-referenced to Table 3
		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Component of regulatory capital HK\$m	
As at 31 Dec 2023		
<b>CET1 capital: instruments and reserves</b>		
1	9,658	(8)
2	122,007	(9)
3	20,079	(13)
4	Not applicable	Not applicable
5	-	
6	151,744	
<b>CET1 capital: regulatory deductions</b>		
7	153	(11)+(16)
8	-	
9	3,388	(3)-(7)
10	481	(4)
11	(37)	(14)
12	926	
13	-	
14	4	(5)+(6)
15	-	
16	-	
17	-	
18	-	
19	-	
20	Not applicable	Not applicable
21	Not applicable	Not applicable
22	Not applicable	Not applicable
23	Not applicable	Not applicable
24	Not applicable	Not applicable
25	Not applicable	Not applicable
26	24,570	
26a	24,570	(10)+(15)
26b	-	
26c	-	
26d	-	
26e	-	
26f	-	
27	-	
28	29,485	
29	122,259	

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 6: CC1 – Composition of regulatory capital (continued)

	a	b
		Cross-referenced to Table 3
		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Component of regulatory capital HK\$m	
<b>AT1 capital: instruments</b>		
30	Qualifying AT1 capital instruments plus any related share premium	11,744
31	<i>of which: classified as equity under applicable accounting standards</i>	11,744 (12)
32	<i>of which: classified as liabilities under applicable accounting standards</i>	-
33	Capital instruments subject to phase-out arrangements from AT1 capital	-
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-
36	<b>AT1 capital before regulatory deductions</b>	<b>11,744</b>
<b>AT1 capital: regulatory deductions</b>		
37	Investments in own AT1 capital instruments	-
38	Reciprocal cross-holdings in AT1 capital instruments	-
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
41	National specific regulatory adjustments applied to AT1 capital	-
42	Regulatory deductions applied to AT1 capital due to insufficient T2 capital to cover deductions	-
43	<b>Total regulatory deductions to AT1 capital</b>	<b>-</b>
44	<b>AT1 capital</b>	<b>11,744</b>
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>134,003</b>
<b>T2 capital: instruments and provisions</b>		
46	Qualifying T2 capital instruments plus any related share premium	-
47	Capital instruments subject to phase-out arrangements from T2 capital	-
48	T2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in T2 capital of the consolidation group)	-
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in T2 capital	219 (1)
51	<b>T2 capital before regulatory deductions</b>	<b>219</b>
<b>T2 capital: regulatory deductions</b>		
52	Investments in own T2 capital instruments	-
53	Reciprocal cross-holdings in T2 capital instruments and non-capital LAC liabilities	-
54	Insignificant LAC investments in T2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as 'section 2 institution' under §2(1) of Schedule 4F to BCR only)	-
55	Significant LAC investments in T2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	1,045 (2)
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments applied to T2 capital	(11,056)
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in T2 capital	(11,056) ((10)+(15))*45%
56b	Regulatory deductions applied to T2 capital to cover the required deductions falling within §48(1)(g) of BCR	-
57	<b>Total regulatory adjustments to T2 capital</b>	<b>(10,011)</b>
58	<b>T2 capital (T2)</b>	<b>10,230</b>
59	<b>Total regulatory capital ('TC' = T1 + T2)</b>	<b>144,233</b>
60	<b>Total RWA</b>	<b>674,269</b>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 6: CCI – Composition of regulatory capital (continued)

	a	b
		Cross-referenced to Table 3
		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Component of regulatory capital HK\$m	
<b>Capital ratios (as a percentage of RWA)</b>		
61	<b>CET1 capital ratio</b>	<b>18.1%</b>
62	<b>T1 capital ratio</b>	<b>19.9%</b>
63	<b>Total capital ratio</b>	<b>21.4%</b>
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	<b>4.346%</b>
65	<i>of which: capital conservation buffer requirement</i>	<b>2.500%</b>
66	<i>of which: bank specific countercyclical capital buffer requirement</i>	<b>0.846%</b>
67	<i>of which: higher loss absorbency requirement</i>	<b>1.000%</b>
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	<b>13.4%</b>
<b>National minima (if different from Basel 3 minimum)</b>		
69	National CET1 minimum ratio	Not applicable
70	National T1 minimum ratio	Not applicable
71	National Total capital minimum ratio	Not applicable
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Insignificant LAC investments in CET1, AT1 and T2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	<b>4,075</b>
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	<b>7,061</b>
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable
75	DTAs arising from temporary differences (net of associated deferred tax liabilities)	Not applicable
<b>Applicable caps on the inclusion of provisions in T2 capital</b>		
76	Provisions eligible for inclusion in T2 in respect of exposures subject to the Basic ('BSC') approach, or the Standardised (credit risk) ('STC') approach and Securitisation external ratings-based ('SEC-ERBA'), Securitisation standardised ('SEC-SA') and Securitisation fall-back ('SEC-FBA') (prior to application of cap)	<b>219</b>
77	Cap on inclusion of provisions in T2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	<b>690</b>
78	Provisions eligible for inclusion in T2 in respect of exposures subject to the IRB approach and Securitisation internal ratings-based ('SEC-IRBA') (prior to application of cap)	-
79	Cap for inclusion of provisions in T2 under the IRB approach and SEC-IRBA	<b>3,258</b>
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	Current cap on CET1 capital instruments subject to phase-out arrangements	Not applicable
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable
82	Current cap on AT1 capital instruments subject to phase-out arrangements	-
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 capital instruments subject to phase-out arrangements	-
85	Amount excluded from T2 capital due to cap (excess over cap after redemptions and maturities)	-

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 6: CC1 – Composition of regulatory capital (continued)

Notes to the template:

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

	Hong Kong basis	Basel III basis
As at 31 Dec 2023	HK\$m	HK\$m
10 DTAs (net of associated deferred tax liabilities)	481	-

### Explanation

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.

### Remarks:

The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

Total capital ratio increased by 1.4 percentage point ('p.p.') compared with the position at June 2023. It is a combined effect of an increase in total capital and a decrease in total RWA.

The increase in total capital of HK\$4.9bn was mainly driven by:

- an increase of HK\$4.4bn from profits for the second half of 2023, net of dividends distributed and AT1 coupons paid; and
- an increase of HK\$0.5bn in reserves.

Total RWA decreased by HK\$21.9bn, in which credit risk RWA decreased by HK\$25.5bn mainly due to a drop in total loan size.



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Countercyclical capital buffer ratio

The CCyB is calculated as the weighted average of the applicable CCyB ratios in effect in the jurisdictions in which banks have private sector credit exposures. The Group uses country of business as the basis of geographical allocation for the majority of its credit risk and risk country for market risk, which is defined by considering the country of incorporation, location of guarantor, headquarter domicile, distribution of revenue and booking country.

Table 7: CCyB1 – Geographical distribution of credit exposures used in countercyclical capital buffer

As at 31 Dec 2023		a	c	d	e
Geographical breakdown by Jurisdiction ('J')	Footnotes	Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		%	HK\$m	%	HK\$m
1 Hong Kong Special Administrative Region (Hong Kong SAR)	1	1.000	465,341		
2 Australia		1.000	75		
3 France		0.500	62		
4 Germany		0.750	5		
5 Ireland		1.000	1		
6 Netherlands		1.000	152		
7 Norway		2.500	2		
8 Sweden		2.000	259		
9 United Kingdom		2.000	1,174		
<b>Sum</b>	2		<b>467,071</b>		
<b>Total</b>	3		<b>553,569</b>	<b>0.846</b>	<b>5,704</b>

- 1 The jurisdictional CCyB of Hong Kong used in the calculation of CCyB requirement has been 1.0% since 31 March 2020. The jurisdictional CCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 2.5% at 31 December 2023.
- 2 This represents the sum of RWA for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.
- 3 The total RWA used in the computation of the CCyB ratio in column (c) represents the total RWA for the private sector credit exposures in all jurisdictions to which the bank is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (e) represents the Group's total RWA multiplied by the AI-specific CCyB ratio in column (d).

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Leverage ratio

The following table shows the LR, T1 capital and total exposure measure as contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR.

Table 8: LR2 – Leverage ratio

	a	b
	31 Dec 2023	30 Sep 2023
	HK\$m	HK\$m
<b>On-balance sheet exposures</b>		
1 On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	1,476,258	1,444,632
2 Less: Asset amounts deducted in determining T1 capital	(29,480)	(28,530)
<b>3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>1,446,778</b>	<b>1,416,102</b>
<b>Exposures arising from derivative contracts</b>		
4 RC associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	10,880	13,976
5 Add-on amounts for PFE associated with all derivative contracts	18,688	20,086
6 Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7 Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8 Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	-	-
9 Adjusted effective notional amount of written credit-related derivative contracts	-	-
10 Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	-	-
<b>11 Total exposures arising from derivative contracts</b>	<b>29,568</b>	<b>34,062</b>
<b>Exposures arising from SFTs</b>		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	32,811	27,687
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14 CCR exposure for SFT assets	566	444
15 Agent transaction exposures	-	-
<b>16 Total exposures arising from SFTs</b>	<b>33,377</b>	<b>28,131</b>
<b>Other OBS exposures</b>		
17 OBS exposure at gross notional amount	522,527	552,496
18 Less: Adjustments for conversion to credit equivalent amounts	(449,408)	(469,304)
<b>19 OBS items</b>	<b>73,119</b>	<b>83,192</b>
<b>Capital and total exposures</b>		
20 T1 capital	134,003	130,454
20a Total exposures before adjustments for specific and collective provisions	1,582,842	1,561,487
20b Adjustments for specific and collective provisions	(13,884)	(15,413)
<b>21 Total exposures after adjustments for specific and collective provisions</b>	<b>1,568,958</b>	<b>1,546,074</b>
<b>LR</b>		
22 LR <sup>1</sup> (%)	8.5%	8.4%

1 LR is the ratio of T1 capital to the total exposures after adjustments for specific and collective provisions.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 9: LR1 – Summary comparison of accounting assets against leverage ratio exposure measure

As at 31 Dec 2023		a
		<b>Value under the LR framework</b>
<b>Item</b>		<b>HK\$m</b>
1	Total consolidated assets as per published financial statements	<b>1,692,094</b>
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	<b>(172,140)</b>
2a	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
3a	Adjustments for eligible cash pooling transactions	-
4	Adjustments for derivative contracts	<b>14,517</b>
5	Adjustment for SFTs (i.e. repos and similar secured lending)	<b>566</b>
6	Adjustment for OBS items (i.e. conversion to credit equivalent amounts of OBS exposures)	<b>73,119</b>
6a	Adjustments for PVA and specific and collective provisions that are allowed to be excluded from exposure measure	<b>(14,037)</b>
7	Other adjustments	<b>(25,161)</b>
8	<b>LR exposure measure</b>	<b>1,568,958</b>

Other adjustments mainly represent the regulatory deductions of property revaluation reserves to T1 capital under the leverage ratio framework.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Overview of RWA and the minimum capital requirements

Table 10: OV1 – Overview of RWA

	a	b	c
	RWA <sup>1</sup>		Minimum capital requirements <sup>2</sup>
	31 Dec 2023 HK\$m	30 Sep 2023 HK\$m	31 Dec 2023 HK\$m
1 Credit risk for non-securitisation exposures	526,943	525,337	44,428
2 of which: STC approach	53,702	55,578	4,296
2a of which: BSC approach	-	-	-
3 of which: Foundation IRB approach	-	-	-
4 of which: Supervisory slotting criteria approach	50,404	49,824	4,274
5 of which: Advanced IRB approach	422,837	419,935	35,858
6 Counterparty default risk and default fund contributions	6,243	6,691	521
7 of which: SA-CCR approach	5,918	6,329	494
7a of which: Current exposure method ('CEM')	-	-	-
8 of which: Internal models (counterparty credit risk) ('IMM(CCR)') approach	-	-	-
9 of which: Others	325	362	27
10 Credit valuation adjustment ('CVA') risk	7,358	9,462	589
11 Equity positions in banking book under the simple risk-weight method and the internal models method	16,300	18,281	1,382
12 CIS exposures – LTA approach	558	538	47
13 CIS exposures – Mandate-based ('MBA') approach	-	-	-
14 CIS exposures – Fall-back ('FBA') approach	-	-	-
14a CIS exposures – combination of approaches	-	-	-
15 Settlement risk	-	-	-
16 Securitisation exposures in banking book	-	-	-
17 of which: SEC-IRBA approach	-	-	-
18 of which: SEC-ERBA approach (including internal assessment approach ('IAA'))	-	-	-
19 of which: SEC-SA approach	-	-	-
19a of which: SEC-FBA approach	-	-	-
20 Market risk	19,898	22,521	1,592
21 of which: STM approach	223	467	18
22 of which: IMM approach	19,675	22,054	1,574
23 Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	Not applicable	Not applicable	Not applicable
24 Operational risk	62,088	59,540	4,967
24a Sovereign concentration risk	-	-	-
25 Amounts below the thresholds for deduction (subject to 250% Risk-weight ('RW'))	17,653	17,671	1,497
26 Capital floor adjustment	-	-	-
26a Deduction to RWA	(13,513)	(13,440)	(1,081)
26b of which: Portion of regulatory reserve for general banking risks and collective provisions which is not included in T2 Capital	-	-	-
26c of which: Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in T2 Capital	(13,513)	(13,440)	(1,081)
27 Total	643,528	646,601	53,942

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

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

3 Item marked with an asterisk (\*) will be applicable only after the respective policy frameworks take effect. Until then, 'Not applicable' is reported in this row.

Total RWA decreased by HK\$3.1bn in the fourth quarter of 2023. RWA impact from market risk and operational risk was nearly offset. Major credit RWA movement came from below exposures:

#### Counterparty default risk and default fund contributions, and CVA risk

RWA decreased by HK\$2.6bn mainly due to a decrease in exposures to interest rate derivative contracts.

#### Equity positions in banking book under the simple risk-weight method and the internal models method

RWA decreased by HK\$2.0bn due to a drop in market value on holding.

The decrease is partly offset by

#### Credit risk for non-securitisation exposures

RWA increased by HK\$1.6bn. It is the net effect of loan growth, unfavourable credit rating migration, and inception of new loans with lower RW compared with matured / extinguished loans.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### RWA flow statements

#### RWA flow statement for credit risk

Table 11: CR8 – RWA flow statement of credit risk<sup>1</sup> exposures under IRB approach

	a
	Amount HK\$m
1 RWA as at end of previous reporting period (30 Sep 2023)	469,759
2 Asset size	(6,522)
3 Asset quality	9,297
4 Model updates	-
5 Methodology and policy	-
6 Acquisitions and disposals	-
7 Foreign exchange movements	940
8 Other	(233)
<b>9 RWA as at end of reporting period (31 Dec 2023)</b>	<b>473,241</b>

<sup>1</sup> Credit risk in this table represents the credit risk for non-securitisation exposures excluding CCR.

RWA increased by HK\$3.5bn in the fourth quarter of 2023. This was mainly driven by an increase of HK\$9.3bn from asset quality due to credit rating migration. The impact was partly offset by a decrease of HK\$6.5bn in asset size mainly due to a change in portfolio mix.

#### RWA flow statement for market risk

Table 12: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	d	e	f
	Value at risk (‘VaR’) HK\$m	Stressed VaR (‘SVaR’) HK\$m	Incremental risk charge (‘IRC’) HK\$m	Comprehensive risk charge (‘CRC’) HK\$m	Other HK\$m	Total RWA HK\$m
1 RWA as at end of previous reporting period (30 Sep 2023)	5,828	16,226	-	-	-	22,054
2 Movement in risk levels	(1,061)	(1,264)	-	-	-	(2,325)
3 Model updates/changes	-	-	-	-	-	-
4 Methodology and policy	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-
6 Foreign exchange movements	(14)	(40)	-	-	-	(54)
7 Other	-	-	-	-	-	-
<b>8 RWA as at end of reporting period (31 Dec 2023)</b>	<b>4,753</b>	<b>14,922</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,675</b>

The decrease in market risk RWA in the fourth quarter of 2023 was driven by Hong Kong dollar (‘HKD’) interest rate trading positions.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Loss-absorbing capacity

Table 13: KM2(A) – Key metrics – LAC requirements for material subsidiaries

	a	b	c	d	e
	At				
	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
	<i>Footnotes</i>				
<b>Of the material entity at LAC consolidation group level</b>					
1 Internal loss-absorbing capacity available (HK\$m)	<b>171,724</b>	168,177	166,788	166,447	166,155
2 RWA under the LAC Rules (HK\$m)	<b>674,269</b>	677,322	696,197	722,516	764,726
3 Internal LAC risk-weighted ratio (%)	<b>25.5</b>	24.8	24.0	23.0	21.7
4 Exposure measure under the LAC Rules (HK\$m)	<b>1,567,913</b>	1,545,029	1,575,852	1,664,394	1,751,156
5 Internal LAC leverage ratio (%)	<b>11.0</b>	10.9	10.6	10.0	9.5
6a Does the subordination exemption in the antepenultimate paragraph of Section 11 of the Financial Stability Board (FSB) Total Loss-absorbing Capacity (TLAC) Term Sheet apply?	<i>1</i> <b>Not applicable</b>	Not applicable	Not applicable	Not applicable	Not applicable
6b Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	<i>1</i> <b>Not applicable</b>	Not applicable	Not applicable	Not applicable	Not applicable
6c If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied	<i>1</i> <b>Not applicable</b>	Not applicable	Not applicable	Not applicable	Not applicable

*1* The subordination exemptions under Section 11 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 14: TLAC1(A) – TLAC composition

As at 31 Dec 2023	a
	Amount
<b>Regulatory capital elements of internal loss-absorbing capacity and adjustments (HK\$m)</b>	
1 CET1 capital	122,259
2 AT1 capital before LAC adjustments	11,744
3 AT1 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
4 Other adjustments	-
5 AT1 capital eligible under the LAC Rules	11,744
6 T2 capital before LAC adjustments	10,230
7 Amortised portion of T2 capital instruments that are internal LAC debt instruments issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
8 T2 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
9 Other adjustments	-
10 T2 capital eligible under the LAC Rules	10,230
<b>11 Internal loss-absorbing capacity arising from regulatory capital</b>	<b>144,233</b>
<b>Non-regulatory capital elements of internal loss-absorbing capacity (HK\$m)</b>	
12 Internal non-capital LAC debt instruments issued directly or indirectly to, and held indirectly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	27,491
<b>17 Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments</b>	<b>27,491</b>
<b>Non-regulatory capital elements of internal loss-absorbing capacity: adjustments (HK\$m)</b>	
<b>18 Internal loss-absorbing capacity before deductions</b>	<b>171,724</b>
19 Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	-
20 Deduction of holdings of its own non-capital LAC liabilities	-
21 Other adjustments to internal loss-absorbing capacity	-
<b>22 Internal loss-absorbing capacity after deductions</b>	<b>171,724</b>
<b>RWA and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes (HK\$m)</b>	
23 RWA under the LAC Rules	674,269
24 Exposure measure under the LAC Rules	1,567,913
<b>Internal LAC ratios and buffers (%)</b>	
25 Internal LAC risk-weighted ratio	25.5
26 Internal LAC leverage ratio	11.0
27 CET1 capital (as a percentage of RWA under the BCR) available after meeting the LAC consolidation group's minimum capital and LAC requirements	12.0
28 Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA under the BCR)	4.346
29 <i>Of which: capital conservation buffer requirement</i>	2.500
30 <i>Of which: institution-specific countercyclical capital buffer requirement</i>	0.846
31 <i>Of which: higher loss absorbency requirement</i>	1.000

Internal LAC risk-weighted ratio increased by 1.5 p.p. in the second half of 2023. It is a combined effect of an increase in LAC contributed by regulatory capital and a decrease in total RWA.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 15: TLAC2 – Hang Seng Bank Limited creditor ranking

	Creditor ranking (HK\$m)				Sum of values in columns 1 to 3
	1 (most junior)	1 (most junior)	2 (most senior)	3 (most senior)	
1 Is the resolution entity or a non-HK resolution entity the creditor/investor? (yes or no) <sup>1</sup>	No	Yes	Yes	Yes	
2 Description of creditor ranking	Ordinary shares <sup>2</sup>	Ordinary shares <sup>2</sup>	AT1 instruments	LAC loans	
3 Total capital and liabilities net of CRM	<b>3,657</b>	<b>6,001</b>	<b>11,744</b>	<b>27,506</b>	<b>48,908</b>
4 Subset of row 3 that is excluded liabilities	-	-	-	-	-
5 Total capital and liabilities less excluded liabilities	<b>3,657</b>	<b>6,001</b>	<b>11,744</b>	<b>27,506</b>	<b>48,908</b>
6 Subset of row 5 that are eligible as internal loss-absorbing capacity	<b>3,657</b>	<b>6,001</b>	<b>11,744</b>	<b>27,506</b>	<b>48,908</b>
7 Subset of row 6 with 1 year ≤ residual maturity < 2 years	-	-	-	-	-
8 Subset of row 6 with 2 years ≤ residual maturity < 5 years	-	-	-	<b>19,700</b>	<b>19,700</b>
9 Subset of row 6 with 5 years ≤ residual maturity < 10 years	-	-	-	<b>7,806</b>	<b>7,806</b>
10 Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	-	-	-	-	-
11 Subset of row 6 that is perpetual securities	<b>3,657</b>	<b>6,001</b>	<b>11,744</b>	-	<b>21,402</b>

1 Any direct/indirect holdings by the resolution entity is reported as 'yes'.

2 Excludes the value of reserves attributable to ordinary shareholders.



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Main features of regulatory capital instruments and non-capital LAC debt instruments

The following is a summary of CET1 capital, AT1 capital and non-capital LAC debt instruments that meet both regulatory capital and LAC requirements, or only LAC (but not regulatory capital) requirements.

Table 16: CCA(A) – Main features of regulatory capital instruments and non-capital LAC debt instruments

(i) Instruments that meet both regulatory capital and LAC requirements As at 31 Dec 2023		a
		Quantitative / qualitative information
		Ordinary shares
1	Issuer	Hang Seng Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	HK0011000095
3	Governing law(s) of the instrument	Laws of Hong Kong
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules <sup>1</sup>	N/A
5	Post-transitional Basel III rules <sup>2</sup>	CET1
6	Eligible at solo / group / solo and group (for regulatory capital purposes)	Solo and Group
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK\$ 9,658 million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HK\$ 9,658 million
9	Par value of instrument	No par value (Total amount HK\$ 9,658 million)
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption price	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned)	Immediately subordinate to AT1 instruments (columns b and c)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Terms and conditions

[Terms and conditions - Ordinary shares](#)

#### Footnote:

<sup>1</sup> Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

<sup>2</sup> Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

<sup>3</sup> Subject to FIRO

<sup>4</sup> Terms and conditions for loan issuance before 20 April 2022 to be read in conjunction with the Master terms and conditions (the 'Master terms and conditions')

[Master terms and conditions](#)

<sup>5</sup> On 20 April 2022, the interest rate benchmark of US\$400m non-capital LAC debt instrument was transitioned to compounded SOFR from previous 3-month US\$ LIBOR.

<sup>6</sup> Terms and conditions for loan issuance after 20 April 2022 to be read in conjunction with the Amended Master terms agreement (the 'Amended Master terms agreement')

[Amended master terms agreement](#)

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 16: CCA(A) – Main features of regulatory capital instruments and non-capital LAC debt instruments (continued)

As at 31 Dec 2023		b	c
		Quantitative / qualitative information	
		Perpetual subordinated loan (US\$ 900 million)	Perpetual subordinated loan (US\$ 600 million)
1	Issuer	Hang Seng Bank Limited	Hang Seng Bank Limited
2	Unique identifier	N/A	N/A
3	Governing law(s) of the instrument	Laws of Hong Kong	Laws of Hong Kong
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved	N/A	N/A
	<i>Regulatory treatment</i>		
4	Transitional Basel III rules <sup>1</sup>	N/A	N/A
5	Post-transitional Basel III rules <sup>2</sup>	AT1	AT1
6	Eligible at solo / group / solo and group	Solo and Group	Solo and Group
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group	Solo and LAC consolidation group	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instrument	Perpetual debt instrument
8	Amount recognised in regulatory capital	HK\$ 7,044 million	HK\$ 4,700 million
8a	Amount recognised in loss-absorbing capacity	HK\$ 7,044 million	HK\$ 4,700 million
9	Par value of instrument	US\$ 900 million	US\$ 600 million
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	14 June 2019	18 June 2019
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption price	17 September 2024 at par value	18 June 2024 at par value
16	Subsequent call dates, if applicable	Callable on any interest payment date after first call date	Callable on any interest payment date after first call date
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed until 17 September 2024 and thereafter floating	Fixed until 18 June 2024 and thereafter floating
18	Coupon rate and any related index	6.030% until 17 September 2024, and thereafter 3-month US\$ LIBOR + 4.020%	6.000% until 18 June 2024, and thereafter 3-month US\$ LIBOR + 4.060%
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible <sup>3</sup>	Non-convertible <sup>3</sup>
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	Yes	Yes
31	If write-down, write-down trigger(s)	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO
32	If write-down, full or partial	May be written down partially	May be written down partially
33	If write-down, permanent or temporary	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination	Contractual	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned)	Immediately subordinate to non-capital LAC debt instruments (columns a to f under ii)	Immediately subordinate to non-capital LAC debt instruments (columns a to f under ii)
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
	Terms and conditions	<a href="#">Individual loan agreement<sup>4</sup></a>	<a href="#">Individual loan agreement<sup>4</sup></a>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 16: CCA(A) – Main features of regulatory capital instruments and non-capital LAC debt instruments (continued)

(ii) Instruments that meet only LAC (but not regulatory capital) requirements As at 31 Dec 2023		a	b
Quantitative / qualitative information			
		Subordinated loan (HK\$ 5,460 million)	Subordinated loan (HK\$ 4,680 million)
1	Issuer	Hang Seng Bank Limited	Hang Seng Bank Limited
2	Unique identifier	N/A	N/A
3	Governing law(s) of the instrument	Laws of Hong Kong	Laws of Hong Kong
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved	N/A	N/A
	<i>Regulatory treatment</i>		
4	Transitional Basel III rules <sup>1</sup>	N/A	N/A
5	Post-transitional Basel III rules <sup>2</sup>	Ineligible	Ineligible
6	Eligible at solo / group / solo and group	Ineligible	Ineligible
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group	Solo and LAC consolidation group	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Non-capital LAC debt instrument	Non-capital LAC debt instrument
8	Amount recognised in regulatory capital	N/A	N/A
8a	Amount recognised in loss-absorbing capacity	HK\$ 5,460 million	HK\$ 4,680 million
9	Par value of instrument	HK\$ 5,460 million	HK\$ 4,680 million
10	Accounting classification	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	30 May 2019	10 June 2019
12	Perpetual or dated	Dated	Dated
13	Original maturity date	Interest payment date falling in May 2028	Interest payment date falling in June 2029
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption price	Interest payment date falling in May 2027 at par value	Interest payment date falling in June 2028 at par value
16	Subsequent call dates, if applicable	Callable on any interest payment date after first call date	Callable on any interest payment date after first call date
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	3-month HK\$ HIBOR + 1.425%	3-month HK\$ HIBOR + 1.564%
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible <sup>3</sup>	Non-convertible <sup>3</sup>
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	Yes	Yes
31	If write-down, write-down trigger(s)	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO
32	If write-down, full or partial	May be written down partially	May be written down partially
33	If write-down, permanent or temporary	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination	Contractual	Contractual
35	Position in subordination hierarchy in liquidation	Immediately subordinate to the claims of all unsubordinated creditors	Immediately subordinate to the claims of all unsubordinated creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
	Terms and conditions	<a href="#">Individual loan agreement<sup>4</sup></a>	<a href="#">Individual loan agreement<sup>4</sup></a>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 16: CCA(A) – Main features of regulatory capital instruments and non-capital LAC debt instruments (continued)

As at 31 Dec 2023		c	d
		Quantitative / qualitative information	
		Subordinated loan (US\$ 400 million)	Subordinated loan (HK\$ 6,240 million)
1	Issuer	Hang Seng Bank Limited	Hang Seng Bank Limited
2	Unique identifier	N/A	N/A
3	Governing law(s) of the instrument	Laws of Hong Kong	Laws of Hong Kong
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved	N/A	N/A
	<i>Regulatory treatment</i>		
4	Transitional Basel III rules <sup>1</sup>	N/A	N/A
5	Post-transitional Basel III rules <sup>2</sup>	Ineligible	Ineligible
6	Eligible at solo / group / solo and group	Ineligible	Ineligible
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group	Solo and LAC consolidation group	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Non-capital LAC debt instrument	Non-capital LAC debt instrument
8	Amount recognised in regulatory capital	N/A	N/A
8a	Amount recognised in loss-absorbing capacity	HK\$ 3,126 million	HK\$ 6,240 million
9	Par value of instrument	US\$ 400 million	HK\$ 6,240 million
10	Accounting classification	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	10 June 2019	13 June 2019
12	Perpetual or dated	Dated	Dated
13	Original maturity date	Interest payment date falling in June 2030	Interest payment date falling in June 2026
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption price	Interest payment date falling in June 2029 at par value	Interest payment date falling in June 2025 at par value
16	Subsequent call dates, if applicable	Callable on any interest payment date after first call date	Callable on any interest payment date after first call date
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	Compounded SOFR + 2.0478%	3-month HK\$ HIBOR + 1.342%
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible <sup>3</sup>	Non-convertible <sup>3</sup>
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	Yes	Yes
31	If write-down, write-down trigger(s)	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO
32	If write-down, full or partial	May be written down partially	May be written down partially
33	If write-down, permanent or temporary	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination	Contractual	Contractual
35	Position in subordination hierarchy in liquidation	Immediately subordinate to the claims of all unsubordinated creditors	Immediately subordinate to the claims of all unsubordinated creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
	Terms and conditions	<a href="#">Amendment agreement<sup>5</sup></a>	<a href="#">Individual loan agreement<sup>4</sup></a>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 16: CCA(A) – Main features of regulatory capital instruments and non-capital LAC debt instruments (continued)

		e	f
As at 31 Dec 2023		<b>Quantitative / qualitative information</b>	
		Subordinated loan (HK\$ 5,000 million)	Subordinated loan (HK\$ 3,000 million)
1	Issuer	Hang Seng Bank Limited	Hang Seng Bank Limited
2	Unique identifier	N/A	N/A
3	Governing law(s) of the instrument	Laws of Hong Kong	Laws of Hong Kong
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved	N/A	N/A
	<i>Regulatory treatment</i>		
4	Transitional Basel III rules <sup>1</sup>	N/A	N/A
5	Post-transitional Basel III rules <sup>2</sup>	Ineligible	Ineligible
6	Eligible at solo / group / solo and group	Ineligible	Ineligible
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group	Solo and LAC consolidation group	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Non-capital LAC debt instrument	Non-capital LAC debt instrument
8	Amount recognised in regulatory capital	N/A	N/A
8a	Amount recognised in loss-absorbing capacity	HK\$ 4,991 million	HK\$ 2,994 million
9	Par value of instrument	HK\$ 5,000 million	HK\$ 3,000 million
10	Accounting classification	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	30 November 2021	27 June 2022
12	Perpetual or dated	Dated	Dated
13	Original maturity date	Interest payment date falling in November 2027	Interest payment date falling in June 2028
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption price	Interest payment date falling in November 2026 at par value	Interest payment date falling in June 2027 at par value
16	Subsequent call dates, if applicable	Callable on any interest payment date after first call date	Callable on any interest payment date after first call date
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	3-month HK\$ HIBOR + 1.00%	3-month HK\$ HIBOR + 1.68%
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible <sup>3</sup>	Non-convertible <sup>3</sup>
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	Yes	Yes
31	If write-down, write-down trigger(s)	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO	Contractual write-down at point of non-viability of borrower. Contractual recognition of HKMA statutory powers under FIRO
32	If write-down, full or partial	May be written down partially	May be written down partially
33	If write-down, permanent or temporary	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination	Contractual	Contractual
35	Position in subordination hierarchy in liquidation	Immediately subordinate to the claims of all unsubordinated creditors	Immediately subordinate to the claims of all unsubordinated creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
	Terms and conditions	<a href="#">Individual loan agreement<sup>4</sup></a>	<a href="#">Individual loan agreement<sup>6</sup></a>

## **BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

### **Credit risk**

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#### **Overview and responsibilities**

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

The principal objectives of our credit risk management sub-function are:

- to maintain across the Group a strong culture of responsible lending and a robust credit risk policy and control framework;
- to both partner and challenge our businesses in defining, implementing and continually re-evaluating our credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

The credit risk sub-functions within Wholesale Credit Risk Management and Wealth and Personal Banking ('WPB') Risk are the constituent parts of the Group's Risk functions that support the Group's CRCO in overseeing credit risks. Their major duties comprise undertaking independent review of large and high-risk credit proposals, overseeing large exposure policy and reporting on our wholesale and retail credit risk management disciplines, owning our credit policy and credit system programmes, overseeing portfolio management and reporting on risk matters to senior executive management and to regulators.

These credit risk sub-functions work closely with other parts of the Group. They fulfil an essential role as independent risk control units distinct from business line management in providing objective scrutiny of risk rating assessments, credit proposals for approval and other risk matters.

Our credit risk procedures operate through a hierarchy of individual credit approval authorities. With delegation from the Board, the Executive Committee delegates the credit approval authority limits to Chief Executive and empowers the Chief Executive to further delegate to CRCO and senior management teams on individual basis. CRCO is empowered by Chief Executive to further delegate the credit approval authority limits.

Business models and strategies will be reviewed regularly by respective business units taking into consideration of current market condition and the Group's risk appetite. Credit risk policies and limits will also be reviewed to ensure alignment with the direction of defined risk appetite and business strategy.

#### ***Credit Risk Management***

Our exposures to credit risk arise from a wide range of customers and products, and the risk rating systems in place to measure and monitor these risks are correspondingly diverse. Senior management receives a variety of reports on our credit risk exposures, including expected credit losses, total exposures and RWA, as well as updates on specific portfolios that are considered to have heightened credit risk.

Credit risk exposures are generally measured and managed in portfolios of either customer types or product categories. Risk rating systems are designed to assess the default propensity of, and loss severity associated with, distinct customers who are typically managed as individual relationships or, in the case of retail business exposures, on a product portfolio basis. Risk rating systems for retail exposures are generally quantitative in nature, applying techniques such as behavioural analysis across product portfolios comprising large numbers of homogeneous transactions. Rating systems for individually managed relationships typically use customer financial statements and market data analysis, but also qualitative elements and a final subjective overlay to reflect any relevant risk drivers not captured in the rating system.

A fundamental principle of the Group's policy and approach is that analytical risk rating systems and scorecards are valuable management tools that are fully embedded within the credit risk management framework, ensuring compliance with the regulatory use test requirement.

For wholesale lending, the credit process provides for at least an annual review of the facility granted. For retail lending revolving facilities, an annual review is undertaken. Review may be more frequent, as required by circumstances such as the emergence of adverse risk factors.

Analytical risk rating systems are not static and are subject to review and modification in light of the changing environment, changing regulatory requirements and the greater availability and quality of data and any deficiencies identified through internal and external regulatory review. Structured processes and metrics are in place to capture relevant data and feed this into continuous model improvement.

We seek to continually improve the quality of our risk management. IT systems that process credit risk data continue to be enhanced in order to deliver both comprehensive management information in support of business strategy and solutions to evolving regulatory reporting requirements.

Post Model Adjustments ('PMAs') are held to ensure that capital requirements are not under-stated due to non-compliance of risk rating systems with regulatory requirements or model limitations. PMAs of the active portfolios will be held until redeveloped models are approved by the HKMA or model limitations have been remediated. Consent from the HKMA must be obtained before any PMA is implemented for HKMA reporting.

#### ***Dilution risk***

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the debts purchased and do not report dilution risk for them. For our non-recourse portfolio we retain the right of recourse to require seller to repurchase the receivables subject to this risk. Moreover, factoring transactions involve lending at a discount to the face-value of the receivables, which provides protection against dilution risk.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Credit quality of assets

Tables 17 to 21 present information on the credit quality of exposures by exposure category, geographical location, industry and residual maturity, and changes in defaulted loans and debt securities on a regulatory consolidation basis. For further details on the credit quality of IRB and STC exposures, refer to Tables 33 to 34 and 36 respectively.

The loans covered in these tables are generally referred to as any on-balance sheet exposures included as credit risk for non-securitisation exposures, covering exposures to customers, banks, sovereigns and others. Cash items and non-financial assets are excluded.

Table 17: CR1 – Credit quality of exposures

	a	b	c	d	e	f	g
	Gross carrying amounts of			Of which Expected Credit Loss ('ECL') accounting provisions <sup>1</sup> for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a + b - c)
	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
As at 31 Dec 2023	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 Loans	24,749	941,066	13,652	375	213	13,064	952,163
2 Debt securities	49	394,331	16	-	-	16	394,364
3 OBS exposures	3	522,524	216	-	6	210	522,311
4 <b>Total</b>	<b>24,801</b>	<b>1,857,921</b>	<b>13,884</b>	<b>375</b>	<b>219</b>	<b>13,290</b>	<b>1,868,838</b>

<sup>1</sup> The categorisation of ECL accounting provisions into regulatory categories of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA 'Capital Adequacy Ratio – (MA(BS)3)' return. According to the completion instructions, the ECL accounting provisions classified into Stage 1 and Stage 2 are treated as collective provisions, while those classified under Stage 3 are treated as specific provisions. Provisions made for purchased or originated credit-impaired financial assets, under which any changes in lifetime expected credit losses will be recognised in the profit and loss account as an impairment gain or loss, are treated as specific provisions.

Table 18: CR2 – Changes in defaulted loans and debt securities

	a
	Amount HK\$m
1 Defaulted loans and debt securities at end of the previous reporting period (30 Jun 2023)	25,901
2 Loans and debt securities that have defaulted since the last reporting period	3,895
3 Returned to non-defaulted status	(18)
4 Amounts written off	(4,916)
5 Other changes	(64)
6 <b>Defaulted loans and debt securities at end of the current reporting period (31 Dec 2023)</b>	<b>24,798</b>

<sup>1</sup> Other changes included repayment and foreign exchange movements.

Table 19: CRB1 – Exposures by geographical location<sup>1</sup>

	Gross carrying amounts at 31 Dec 2023
	HK\$m
Hong Kong SAR	1,693,704
Mainland China	167,833
Others	21,185
<b>Total</b>	<b>1,882,722</b>

<sup>1</sup> The geographical locations shown in this table above represent the location of the principal operations of the subsidiary and by the location of the branch responsible for advancing the funds.

<sup>2</sup> Any segment which constitutes less than 10% of total gross carrying amounts is disclosed on an aggregated basis under the category 'Others'.

**BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

Table 20: CRB2 – Exposures by industry

	Gross carrying amounts at 31 Dec 2023 HK\$m
Industrial, commercial and financial	
- Property development and investment	147,329
- Financial concerns	182,628
- Stockbrokers	971
- Wholesale and retail trade	90,977
- Manufacturing	67,567
- Transport and transport equipment	20,343
- Recreational activities	601
- Information technology	25,979
- Others	632,005
Individuals	641,095
Trade finance	73,227
<b>Total</b>	<b>1,882,722</b>

Table 21: CRB3 – Exposures by residual maturity

	Gross carrying amounts at 31 Dec 2023 HK\$m
Less than 1 year	925,608
Between 1 and 5 years	325,576
More than 5 years	626,463
Undated	5,075
<b>Total</b>	<b>1,882,722</b>



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Credit-impaired exposures, past due unimpaired exposures and forborne exposures

Tables 22 to 25 analyse impaired exposures, impairment allowances, past due unimpaired exposures and forborne exposures on a regulatory consolidation basis.

Our approach for determining impairment allowances, definitions for accounting purposes of 'credit-impaired', 'forborne' and the definition of default for regulatory capital are explained in Note 2(j) of the Group's 2023 Annual Report.

The analysis of gross impaired loans and advances and impairment allowances by major industry sectors based on categories and definitions used by the Group is as follows:

Table 22: CRB4 – Credit-impaired exposures and impairment allowances and write-offs by industry

As at 31 Dec 2023	Footnote	Gross loans and advances to customers <sup>1</sup>	Gross credit-impaired loans and advances	Overdue loans and advances <sup>2</sup>	Specific provisions <sup>3</sup>	Collective provisions <sup>3</sup>	Impairment allowances charged to/ (released from) profit and loss	Advances written off during the year
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Residential mortgages		329,261	579	643	(17)	-	(33)	1
Real estate and construction		208,733	16,379	7,689	(6,967)	(1,764)	4,600	3,961
Others	4	336,046	7,791	7,007	(2,174)	(2,711)	1,736	1,638
<b>Total</b>		<b>874,040</b>	<b>24,749</b>	<b>15,339</b>	<b>(9,158)</b>	<b>(4,475)</b>	<b>6,303</b>	<b>5,600</b>

1 The amounts shown in column 'Gross loans and advances to customers' represent loans and advances to customers gross of provisions in the financial statements under the regulatory consolidation scope and therefore is different from the 'Gross loans and advances to customers' shown in table 26 which is prepared on accounting consolidation basis. The difference of total gross loans of HK\$1m represents the Bank's loans and advances to the Group's subsidiaries which are outside the regulatory scope of consolidation.

2 The amounts shown in column 'Overdue loans and advances' represent gross loans and advances to customers that were overdue for more than 3 months as at 31 December 2023.

3 The classification of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA 'Capital Adequacy Ratio - MA(BS)3' return. Details can be found in footnote 1 under table 17 of this document.

4 Any segment which constitutes less than 10% of total gross loans and advances to customers is disclosed on an aggregated basis under the category 'Others'.

The geographical information shown below has been classified by the location of the principal operations of the subsidiary and by the location of the branch responsible for advancing the funds.

Table 23: CRB5 – Credit-impaired exposures and impairment allowances and write-offs by geographical location

As at 31 Dec 2023	Footnote	Gross loans and advances to customers <sup>1</sup>	Gross credit-impaired loans and advances	Overdue loans and advances <sup>2</sup>	Specific provisions <sup>3</sup>	Collective provisions <sup>3</sup>	Impairment allowances charged to/ (released from) profit and loss	Advances written off during the year
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Hong Kong SAR		805,585	22,814	14,755	(8,526)	(3,913)	5,616	4,962
Mainland China		55,579	1,912	584	(632)	(558)	695	623
Others	4	12,876	23	-	-	(4)	(8)	15
<b>Total</b>		<b>874,040</b>	<b>24,749</b>	<b>15,339</b>	<b>(9,158)</b>	<b>(4,475)</b>	<b>6,303</b>	<b>5,600</b>

1 The amounts shown in column 'Gross loans and advances to customers' represent loans and advances to customers gross of provisions in the financial statements under the regulatory consolidation scope and therefore is different from the 'Gross loans and advances to customers' shown in table 26 which is prepared on accounting consolidation basis. The difference of total gross loans of HK\$1m represents the Bank's loans and advances to the Group's subsidiaries which are outside the regulatory scope of consolidation.

2 The amounts shown in column 'Overdue loans and advances' represent gross loans and advances to customers that were overdue for more than 3 months as at 31 December 2023.

3 The classification of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA 'Capital Adequacy Ratio - MA(BS)3' return. Details can be found in footnote 1 under table 17 of this document.

4 Any segment which constitutes less than 10% of total gross loans and advances to customers is disclosed on an aggregated basis under the category 'Others'.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Past due unimpaired exposures are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. Exposures past due for more than 90 days are considered impaired.

Table 24: CRB6 – Aging analysis of accounting past due unimpaired exposures

As at 31 Dec 2023	Up to 29 days HK\$m	30- 59 days HK\$m	60- 89 days HK\$m	Total HK\$m
Loans and advances to customers held at amortised cost:				
- Personal	4,175	838	215	5,228
- Corporate and commercial	861	44	38	943
<b>Total</b>	<b>5,036</b>	<b>882</b>	<b>253</b>	<b>6,171</b>

Table 25: CRB7 – Breakdown of forborne loans between credit impaired and not credit impaired

	31 Dec 2023 HK\$m
Not credit impaired	2,659
Credit impaired	4,943
<b>Total</b>	<b>7,602</b>

### Loans and advances to customers

Tables 26 to 28 analyse the loans and advances to customers by geographical locations, by industries, and by which are overdue and rescheduled on an accounting consolidation basis. The accounting consolidation basis is different from the regulatory consolidation basis as explained in the 'Basis of consolidation' section of this document.

The following analysis of loans and advances to customers by geographical areas is in accordance with the location of counterparties, after recognised risk transfer.

Table 26: Gross loans and advances to customers by geographical location

As at 31 Dec 2023	<i>Footnotes</i>	Hong Kong SAR HK\$m	Mainland China HK\$m	Others HK\$m	Total HK\$m
Gross loans and advances to customers	1, 2	782,533	73,015	18,491	874,039

- 1 The balances include gross credit impaired loans and advances to customers of HK\$23,048m in Hong Kong, HK\$1,324m in Mainland China and HK\$377m in Others.
- 2 The amounts shown in column 'Gross loans and advances to customers' represent the loans and advances to customers gross of provisions in the financial statements on the accounting consolidation basis and therefore is different from the 'Gross loans and advances to customers' shown in tables 22 and 23 which are prepared under the regulatory consolidation scope. The difference of total gross loans of HK\$1m represents the Bank's loans and advances to the Group's subsidiaries which are outside the regulatory scope of consolidation.

## BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

The analysis of gross loans and advances to customers by industry sector based on categories and definitions contained in the 'Quarterly Analysis of Loans and Advances and Provisions - (MA(BS)2A)' return submitted to the HKMA is as follows:

Table 27: Gross loans and advances to customers by industry sector

As at 31 Dec 2023	Gross loans and advances HK\$m	% of gross advances covered by collateral %
<b>Industrial, commercial and financial sectors</b>		
- property development	54,622	53.2%
- property investment	127,978	85.0%
- financial concerns	2,527	19.8%
- stockbrokers	200	0.0%
- wholesale and retail trade	19,879	52.9%
- manufacturing	20,410	19.3%
- transport and transport equipment	12,727	62.8%
- recreational activities	280	99.4%
- information technology	10,111	6.0%
- other	67,428	62.9%
<b>Individuals</b>		
- loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	44,601	99.0%
- loans and advances for the purchase of other residential properties	265,670	99.6%
- credit card loans and advances	30,814	0.0%
- other	31,303	49.8%
Gross loans and advances for use in Hong Kong	688,550	76.8%
Trade finance	33,139	19.9%
Gross loans and advances for use outside Hong Kong	152,350	31.5%
<b>Gross loans and advances to customers</b>	<b>874,039</b>	<b>66.7%</b>

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross loans and advances to customers, only the amount of collateral up to the gross loans and advances is included.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Loans and advances to customers that are more than three months overdue and their expression as a percentage of gross loans and advances to customers are as follows:

Table 28: Overdue loans and advances to customers

As at 31 Dec 2023	HK\$m	%
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
- more than three months but not more than six months	2,416	0.28%
- more than six months but not more than one year	5,321	0.61%
- more than one year	7,602	0.87%
<b>Total</b>	<b>15,339</b>	<b>1.76%</b>
of which:		
- specific provisions	(5,605)	
- covered portion of overdue loans and advances	7,752	
- uncovered portion of overdue loans and advances	7,587	
- current market value of collateral held against the covered portion of overdue loans and advances	10,689	
Rescheduled loans and advances to customers	2,083	0.24%

Collateral held with respect to overdue loans and advances is mainly residential properties and commercial properties. The current market value of residential properties and commercial properties were HK\$2,746m and HK\$7,520m respectively.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at period-end. Loans and advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at period-end. Loans and advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, or when the loans and advances have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status. Rescheduled loans and advances to customers are stated net of any advances which have subsequently become overdue for more than three months and which are included in 'Overdue loans and advances to customers'.

The amount of repossessed assets as at 31 December 2023 was HK\$118m.

### Overdue and rescheduled amounts relating to placings with and advances to banks and other assets

There were no overdue or rescheduled placings with and advances to banks, nor rescheduled other assets as at 31 December 2023.

## BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

### Off-balance sheet exposures other than derivative transactions

The following table gives the nominal contract amounts and RWA of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return required to be submitted to the HKMA by the Group. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 3C(1) of the BCR.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in 'Other assets'. For the purpose of the BCR, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Table 29: Off-balance sheet exposures other than derivative transactions

	<b>31 Dec 2023 HK\$m</b>
<b>Contract amounts</b>	
Direct credit substitutes	<b>1,981</b>
Transaction-related contingencies	<b>14,602</b>
Trade-related contingencies	<b>19,338</b>
Forward asset purchases	<b>75</b>
Commitments that are unconditionally cancellable without prior notice	<b>458,073</b>
Commitments which have an original maturity of not more than one year	<b>475</b>
Commitments which have an original maturity of more than one year	<b>27,983</b>
<b>Total</b>	<b>522,527</b>
RWA	<b>48,924</b>

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Credit risk under internal ratings-based approach

#### Qualitative disclosures related to internal models for measuring credit risk under IRB approach

(i) Nature of exposures within each IRB class

The Group uses advanced IRB approach for the majority of its business under the approval granted by the HKMA. This includes the following major classes of non-securitisation exposures:

- Corporate exposures including exposures to global and local large corporates, middle market corporates and small and medium-sized enterprises ('SME'), non-bank financial institutions ('NBFIs') and specialised lending.
- Sovereign exposures, including exposures to central governments, central monetary institutions, multilateral development banks and relevant international organisations.
- Bank exposures including exposures to banks and regulated securities firms.
- Retail exposures, including residential mortgages, qualifying revolving retail exposures ('QRRE'), retail SME and other retail exposures.
- Equity exposures.
- Other exposures, including cash items and other assets.

At 31 December 2023, the portion of exposure at default ('EAD') and RWA within the Group covered by IRB approach are summarised in the following table. The remaining portions not covered by IRB approach are under STC approach.

Table 30: CRE1 – Percentage of total EAD and RWA covered by IRB approach

<b>Portfolio</b>	<b>Percentage of total EAD under IRB approach</b>	<b>Percentage of total RWA under IRB approach</b>
Corporate exposures (includes SME and other corporates and specialised lending) <sup>1</sup>	<b>93%</b>	<b>90%</b>
Sovereign exposures	<b>99%</b>	<b>100%</b>
Bank exposures (including securities firms)	<b>99%</b>	<b>98%</b>
Residential mortgage loans	<b>93%</b>	<b>87%</b>
Other retail exposures	<b>94%</b>	<b>82%</b>
Equity exposures	<b>100%</b>	<b>100%</b>
Other exposures	<b>100%</b>	<b>100%</b>

*1 Specialised lending exposures adopt regulatory slotting approach under the IRB framework.*

The above table covers credit risk for non-securitisation exposures excluding CCR. For CCR, the percentage of total RWA covered by IRB approach is 84% for corporate exposures and 100% for sovereign and bank exposures.

(ii) Application of IRB parameters

The Group's credit risk rating framework incorporates the probability of default ('PD') of a borrower and the loss severity, expressed in terms of EAD and loss given default ('LGD'). These measures are used to calculate both expected loss ('EL') and capital requirements, subject to any floors required by the HKMA. They are also used in conjunction with other inputs to inform rating assessments for the purpose of credit approval and many other risk management decisions. The narrative explanations that follow relate to the IRB advanced approaches, that is, IRB advanced for distinct customers and retail IRB for the portfolio managed retail business.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 31: CRE2 – Wholesale IRB credit risk models

Regulatory asset classes measured	Component	Number of significant models	Model description and methodology	Number of years loss data	Regulatory Floors
Central governments and central banks	PD	1	A shadow rating approach that includes macroeconomic and political factors, constrained with expert judgement.	>10	No
	LGD	1	An unsecured model built on assessment of structural factors that influence the country's long-term economic performance. For unsecured LGD, a floor of 45% is applied.	>10	45% <sup>1</sup>
	EAD	1	A cross-classification model that uses both internal data and expert judgement, as well as information on similar exposure types from other asset classes.	>10	EAD must be at least equal to the current utilisation of the balance at account level
Bank / Securities firm	PD	2	Statistical models that combine quantitative analysis on financial information with expert inputs and macroeconomic factors.	>10	0.03%
	LGD	1	A quantitative model that produces both downturn and expected LGD. Several securities types are included in the model to recognise collateral in the LGD calculation. For unsecured LGD, a floor of 45% is applied.	>10	45% <sup>2</sup>
	EAD	1	A quantitative model that assigns CCF taking into account product types and committed/uncommitted indicator to calculate EAD using current utilisation and available headroom.	>10	EAD must be at least equal to the current utilisation of the balance at account level
Other Corporate / Small and medium sized corporates <sup>3</sup>	PD	11	The corporate models use financial information, macroeconomic information and market-driven data, and is complemented by a qualitative assessment. The NBFIs models which are the predominantly statistical models that combines quantitative analysis on financial information with expert inputs.	>=10	0.03%
	LGD	1	Regional statistical models covering all corporates, developed using historical loss/recovery data and various data inputs, including collateral information, facility seniority and customer geography.	>10	No
	EAD	1	Regional statistical models covering all corporates, developed using historical utilisation information and various data inputs, including product type and nature of commitment.	>10	EAD must be at least equal to the current utilisation of the balance at account level

<sup>1</sup> LGD floor exempted for Mainland China and Hong Kong SAR

<sup>2</sup> LGD floor exempted for intra-group entities

<sup>3</sup> Excludes specialised lending exposures subject to supervisory slotting approach.

PD for wholesale customer segments (central governments and central banks (sovereigns), institutions, corporates) are derived from a customer risk rating ('CRR') scale of 23 grades. Of these, 21 are non-default grades representing varying degrees of strength of financial condition and two are default grades. Each CRR has a PD range associated with it as well as a mid-point PD.

The score generated by a credit risk rating model for the obligor is mapped to the corresponding CRR. The process through which this, or a judgmentally amended CRR, is then recommended to and reviewed by a credit approver takes into account all additional information relevant to the risk rating determination, including external ratings where available. The approved CRR is mapped to a PD value range of which the 'mid-point' is used in the regulatory capital calculation. PD models are developed where the risk profile of corporate borrowers is specific to a country and sector. For illustration purposes, the CRR is also mapped to external ratings of Standard and Poor's Ratings Services ('S&P'), though we also benchmark against other agencies' ratings in an equivalent manner.

LGD and EAD estimation for the wholesale business is subject to a Group framework of basic principles. EAD is estimated to a 12-month forward time horizon and represents the current exposure, plus an estimate for future increases in exposure and the realisation of contingent exposures post-default. LGD is based on the effects of facility and collateral structure on outcomes post-default. This includes factors such as the type of client, the facility seniority, the type and value of collateral, past recovery experience and priority under law. It is expressed as a percentage of EAD.

The Group uses the Supervisory Slotting Criteria approach in rating its specialised lending exposures. Under this approach, ratings are determined by considering both the borrower and the transaction risk characteristics.

## BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

(ii) Application of IRB parameters *(continued)*

Table 32: CRE3 – Material retail IRB credit risk models

Regulatory asset classes measured	Component	Number of significant models	Model description and methodology	Number of years loss data	Regulatory Floors
Hong Kong - Hang Seng Personal Residential Mortgages*	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate.	>10	0.03%
(Residential mortgage exposures)	LGD	3	1 component based model and 2 historical average models based on estimate of loss incurred over a recovery period derived from historical data with downturn LGD based on the worst observed default rate.	>10	10%
	EAD	1	Rule-based calculation based on current balance and estimated incurred interest which continues to be a conservative estimate for EAD.	>10	EAD must at least be equal to current balance
Hong Kong – Hang Seng Credit Cards	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate by segment.	>10	0.03%
(QRRE and Other retail exposures to individuals)	LGD	1	Statistical model based on forecasting the amount of expected future losses with downturn adjustment.	>10	
	EAD	1	Statistical model which derives a credit limit utilization by segment which is used to determine the EAD.	>10	EAD must at least be equal to current balance
Hong Kong – Hang Seng Personal Loans	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate by segment.	>10	0.03%
(Other retail exposures to individuals)	LGD	1	Statistical model based on forecasting the amount of expected future losses with downturn adjustment.	> 10	
	EAD	1	Rule-based calculation based on current balance and estimated incurred interest which continues to be a conservative estimate for EAD.	> 10	EAD must at least be equal to current balance

\* Apart from the regulatory floors on PD and LGD, Hong Kong residential mortgage exposures are also subject to regulatory risk-weight floor of 15% since 1 January 2023.

These measures are used to calculate EL and capital requirements. They are also used in conjunction with other inputs to form rating assessments for the purpose of credit approval and for risk management decisions.

The wide range of application and behavioural information used in the management of retail portfolios has been supplemented with models to derive the measures of PD, EAD and LGD required for the Basel framework.

PD models are developed using statistical estimation generally based on a minimum of five years of historical data. The modelling approach is typically a hybrid approach, which includes elements of Through-The-Cycle ("TTC") and Point-in-Time ("PiT") approaches.

EAD models are also generally developed using at least five years of historical observations and typically adopt one of two approaches:

- Closed-end products without the facility for additional drawdowns, EAD is estimated as the outstanding balance of accounts at the time of observation with predicted interest and fees; or
- EAD for products with the facility for additional drawdowns is estimated as the outstanding balance of accounts at the time of observation plus a CCF applied to the undrawn portion of the facility.

LGD estimates have more variation, particularly in respect of the time period that is used to quantify economic downturn assumptions. The LGD models for retail exposures are developed based on the Group's internal loss and default experiences including recovery values for different types of collaterals for secured retail exposures such as residential mortgages; for unsecured retail exposures such as QRRE, LGD models are developed based on past recovery experiences, account behaviours and repayment ability.



## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

### (iii) Model Governance

Throughout HSBC, models are governed under the remit of the HSBC Group MRC, operating in line with HSBC's model risk policy. The MRC is responsible to authorize MOFs, where required, to operate under its remit and are responsible for model risk management within their areas. All new or materially changed IRB capital models require pre-approval from regulators and such models are under the oversight of Local MOFs and HSBC MOFs.

Local MOFs have the responsibilities to review and understand the model portfolio and model risk profile, and to ensure that the portfolio and model approval decisions remaining within any applicable risk limits. All senior managers (or delegates) approving credit risk models which fall within the scope of a MOF are required to notify the relevant MOF to ensure oversight responsibility is retained.

HSBC and the Group sets global and internal policies and standards govern the development, validation, independent review, approval, implementation and performance monitoring of credit risk rating models. Independent reviews of credit risk models are performed by the HSBC Independent Model Review team which is separate from the Risk Analytics functions that are responsible for the development of models.

Compliance with HSBC Group standards is subject to examination by risk oversight and review from within the Risk and Compliance function itself, and by Internal Audit.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 33.1: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Wholesale)

	a	b	c	d	e	f	g	h	i	j	k	l
As at 31 Dec 2023	Original on-balance sheet gross exposure	OBS exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity*	RWA	RWA density	EL	Provisions <sup>^</sup>
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
<b>Sovereign</b>												
0.00 to < 0.15	368,976	-	-	368,976	0.01	39	28.6	1.24	11,768	3	14	
0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
<b>Sub-total</b>	<b>368,976</b>	<b>-</b>	<b>-</b>	<b>368,976</b>	<b>0.01</b>	<b>39</b>	<b>28.6</b>	<b>1.24</b>	<b>11,768</b>	<b>3</b>	<b>14</b>	<b>3</b>
<b>Bank</b>												
0.00 to < 0.15	92,227	436	95.1	92,642	0.04	873	42.3	1.28	12,499	13	14	
0.15 to < 0.25	1,268	-	-	1,268	0.22	68	45.5	0.89	524	41	1	
0.25 to < 0.50	528	709	45.0	847	0.37	34	37.1	0.79	367	43	1	
0.50 to < 0.75	199	1	5.0	199	0.63	19	45.0	0.08	123	62	1	
0.75 to < 2.50	26	5	55.0	29	0.90	6	42.0	1.00	18	62	-	
2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
<b>Sub-total</b>	<b>94,248</b>	<b>1,151</b>	<b>64.0</b>	<b>94,985</b>	<b>0.04</b>	<b>1,000</b>	<b>42.3</b>	<b>1.26</b>	<b>13,531</b>	<b>14</b>	<b>17</b>	<b>3</b>
<b>Corporate – small-and-medium sized corporates</b>												
0.00 to < 0.15	1,549	3,725	40.5	3,058	0.11	59	31.6	1.17	349	11	1	
0.15 to < 0.25	918	3,512	23.4	1,738	0.22	101	32.5	2.82	590	34	1	
0.25 to < 0.50	7,332	4,463	28.6	8,607	0.37	168	29.6	1.79	2,665	31	9	
0.50 to < 0.75	5,621	2,742	29.4	6,426	0.63	159	24.4	1.93	2,267	35	10	
0.75 to < 2.50	34,258	18,399	27.4	39,296	1.25	781	26.5	2.13	19,944	51	128	
2.50 to < 10.00	10,123	3,362	29.3	11,106	4.00	167	27.7	1.66	7,087	64	125	
10.00 to < 100.00	4,919	360	36.5	5,050	14.90	28	25.4	1.25	4,683	93	194	
100.00 (Default)	4,257	-	-	4,257	100.00	38	32.4	1.47	12,356	290	424	
<b>Sub-total</b>	<b>68,977</b>	<b>36,563</b>	<b>28.9</b>	<b>79,538</b>	<b>7.57</b>	<b>1,501</b>	<b>27.4</b>	<b>1.90</b>	<b>49,941</b>	<b>63</b>	<b>892</b>	<b>719</b>
<b>Corporate – others</b>												
0.00 to < 0.15	95,847	38,404	33.3	108,650	0.08	353	45.8	1.77	22,727	21	40	
0.15 to < 0.25	29,753	23,291	24.6	35,476	0.22	205	46.2	1.59	13,620	38	36	
0.25 to < 0.50	33,647	29,858	22.1	40,250	0.37	273	47.2	1.79	22,103	55	70	
0.50 to < 0.75	15,447	26,842	20.1	20,848	0.63	346	45.9	1.40	13,866	67	60	
0.75 to < 2.50	72,702	66,137	20.5	86,267	1.41	1,023	35.6	1.60	66,874	78	422	
2.50 to < 10.00	18,582	21,951	19.2	22,785	4.43	303	37.2	1.46	25,099	110	373	
10.00 to < 100.00	17,199	2,283	25.4	17,779	16.31	79	27.4	1.45	21,490	121	790	
100.00 (Default)	18,161	-	-	18,161	100.00	144	40.4	1.16	22,232	122	8,266	
<b>Sub-total</b>	<b>301,338</b>	<b>208,766</b>	<b>23.4</b>	<b>350,216</b>	<b>6.78</b>	<b>2,726</b>	<b>41.7</b>	<b>1.62</b>	<b>208,011</b>	<b>59</b>	<b>10,057</b>	<b>9,741</b>

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 33.2: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Retail)

	a	b	c	d	e	f	g	h	i	j	k	l
As at 31 Dec 2023	Original on-balance sheet gross exposure	OBS exposures pre-CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity*	RWA	RWA density	EL	Provisions <sup>^</sup>
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
<b>Retail – QRRE</b>												
0.00 to < 0.15	11,538	166,954	37.6	74,297	0.07	1,811,154	105.1		3,453	5	55	
0.15 to < 0.25	2,193	12,855	46.5	8,169	0.23	181,839	104.5		1,003	12	19	
0.25 to < 0.50	4,435	20,490	36.6	11,942	0.40	217,977	102.5		2,288	19	49	
0.50 to < 0.75	2,272	4,191	55.8	4,610	0.60	60,439	101.7		1,203	26	28	
0.75 to < 2.50	6,069	12,031	37.4	10,570	1.43	94,097	101.1		5,255	50	152	
2.50 to < 10.00	3,601	3,178	67.7	5,752	4.72	49,769	100.7		6,666	116	273	
10.00 to < 100.00	1,374	366	184.9	2,050	33.21	15,806	99.0		3,904	190	653	
100.00 (Default)	79	-	-	79	100.00	967	94.2		120	152	65	
<b>Sub-total</b>	<b>31,561</b>	<b>220,065</b>	<b>39.0</b>	<b>117,469</b>	<b>1.13</b>	<b>2,432,048</b>	<b>104.0</b>		<b>23,892</b>	<b>20</b>	<b>1,294</b>	<b>1,177</b>
<b>Retail – residential mortgage exposures</b>												
0.00 to < 0.15	207,240	1,655	100.0	208,895	0.08	55,080	26.8		31,334	15	47	
0.15 to < 0.25	51,840	414	100.0	52,254	0.18	33,013	26.3		8,131	16	25	
0.25 to < 0.50	255	2	100.0	257	0.34	60	18.6		41	16	-	
0.50 to < 0.75	19,259	154	100.0	19,413	0.52	7,629	23.6		4,044	21	24	
0.75 to < 2.50	18,531	148	100.0	18,679	0.96	14,513	22.6		5,189	28	41	
2.50 to < 10.00	6,229	50	100.0	6,279	4.46	4,047	21.7		4,225	67	61	
10.00 to < 100.00	5,090	40	100.0	5,130	22.87	2,803	21.3		6,295	123	250	
100.00 (Default)	634	-	-	634	100.00	230	18.3		1,328	209	10	
<b>Sub-total</b>	<b>309,078</b>	<b>2,463</b>	<b>100.0</b>	<b>311,541</b>	<b>0.85</b>	<b>117,375</b>	<b>26.0</b>		<b>60,587</b>	<b>19</b>	<b>458</b>	<b>4</b>
<b>Retail – small business retail exposures</b>												
0.00 to < 0.15	2,292	10	100.0	2,302	0.07	1,148	10.2		48	2	-	
0.15 to < 0.25	406	2	100.0	408	0.19	107	16.9		27	7	-	
0.25 to < 0.50	17	-	-	17	0.32	7	25.0		2	12	-	
0.50 to < 0.75	432	1	100.0	433	0.55	167	7.8		25	6	-	
0.75 to < 2.50	437	2	100.0	439	1.20	103	31.7		150	34	2	
2.50 to < 10.00	388	-	-	388	5.54	154	10.0		58	15	3	
10.00 to < 100.00	52	-	-	52	24.02	27	18.8		23	44	2	
100.00 (Default)	11	-	-	11	100.00	2	2.0		11	100	-	
<b>Sub-total</b>	<b>4,035</b>	<b>15</b>	<b>100.0</b>	<b>4,050</b>	<b>1.35</b>	<b>1,715</b>	<b>13.0</b>		<b>344</b>	<b>8</b>	<b>7</b>	<b>1</b>
<b>Other retail exposures to individuals</b>												
0.00 to < 0.15	2,250	2,147	9.0	2,443	0.08	19,583	17.2		98	4	-	
0.15 to < 0.25	2,412	2,797	16.8	2,882	0.22	20,991	14.4		175	6	1	
0.25 to < 0.50	4,438	1,216	18.6	4,664	0.32	41,919	96.3		2,478	53	15	
0.50 to < 0.75	1,715	151	43.8	1,781	0.59	8,024	79.2		1,120	63	8	
0.75 to < 2.50	7,284	1,251	30.9	7,671	1.32	28,506	61.0		5,269	69	66	
2.50 to < 10.00	2,688	138	53.5	2,762	4.70	13,526	79.7		3,216	116	103	
10.00 to < 100.00	695	25	74.6	713	19.19	5,092	87.4		1,312	184	126	
100.00 (Default)	55	3	-	55	100.00	499	46.0		105	191	21	
<b>Sub-total</b>	<b>21,537</b>	<b>7,728</b>	<b>18.6</b>	<b>22,971</b>	<b>2.00</b>	<b>138,140</b>	<b>62.1</b>		<b>13,773</b>	<b>60</b>	<b>340</b>	<b>335</b>

Table 33.3: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Total)

	a	b	c	d	e	f	g	h	i	j	k	l
As at 31 Dec 2023	Original on-balance sheet gross exposure	OBS exposures pre-CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity*	RWA	RWA density	EL	Provisions <sup>^</sup>
Total (all portfolios)	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
<b>Total (all portfolios)</b>	<b>1,199,750</b>	<b>476,751</b>	<b>31.5</b>	<b>1,349,746</b>	<b>2.54</b>	<b>2,694,544</b>	<b>39.4</b>	<b>1.45</b>	<b>381,847</b>	<b>28</b>	<b>13,079</b>	<b>11,983</b>

\* The average maturity is relevant to wholesale portfolios only.

<sup>^</sup> Provisions in this table represent the eligible provisions as defined under Division 1, Part 6 of the BCR which include the regulatory reserves for general banking risks and the impairment allowances reported under IRB approach.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 34: CR10 – Specialised lending under supervisory slotting criteria approach – other than high-volatility commercial real estate ('HVCRE')

As at 31 Dec 2023		a	b	c	d(i)	d(ii)	d(iii)	d(iv)	d(v)	e	f	
Supervisory Rating	Remaining Maturity	On-balance sheet exposure amount HK\$m	OBS exposure amount HK\$m	Supervisory risk-weight ('SRW') %	EAD amount				Total HK\$m	RWA HK\$m	EL amount HK\$m	
					Project finance ('PF') HK\$m	Object finance ('OF') HK\$m	Commo- dities finance ('CF') HK\$m	Income- producing real estate ('IPRE') HK\$m				
Strong <sup>^</sup>	Less than 2.5 years	15,928	381	50%	-	-	-	-	16,113	16,113	8,057	-
Strong	Less than 2.5 years	2,514	966	70%	-	-	-	-	2,856	2,856	1,999	11
Strong	Equal to or more than 2.5 years	4,180	11	70%	-	-	-	-	4,182	4,182	2,927	17
Good <sup>^</sup>	Less than 2.5 years	12,094	1,142	70%	-	-	-	-	12,605	12,605	8,824	50
Good	Less than 2.5 years	3,398	761	90%	-	-	-	-	3,695	3,695	3,326	30
Good	Equal to or more than 2.5 years	7,096	152	90%	-	-	-	-	7,178	7,178	6,460	57
Satisfactory		8,979	509	115%	-	-	-	-	9,187	9,187	10,566	257
Weak		3,297	2	250%	-	-	-	-	3,298	3,298	8,245	264
Default		868	-	0%	-	-	-	-	868	868	-	434
<b>Total</b>		<b>58,354</b>	<b>3,924</b>		-	-	-	-	<b>59,982</b>	<b>59,982</b>	<b>50,404</b>	<b>1,120</b>

<sup>^</sup> Use of preferential risk-weights.

Table 35: CR10 – Equity exposures under the simple risk-weight method

As at 31 Dec 2023	a	b	c	d	e
Categories	On-balance sheet exposure amount HK\$m	OBS exposure amount HK\$m	SRW %	EAD amount HK\$m	RWA HK\$m
Publicly traded equity exposures	-	-	300%	-	-
All other equity exposures	4,075	-	400%	4,075	16,300
<b>Total</b>	<b>4,075</b>	<b>-</b>		<b>4,075</b>	<b>16,300</b>

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Credit risk under standardised approach

#### Use of external credit ratings under the standardised approach for credit risk

STC approach is applied where exposures do not qualify for use of an IRB approach and/or where an exemption from IRB has been granted. The STC approach requires banks to use risk assessments prepared by External Credit Assessment Institutions ('ECAI') to determine the risk weightings applied to rated counterparties.

ECAI risk assessments are used within the group as part of the determination of risk weightings for the following classes of exposures:

- Public sector entity ('PSE') exposures; and
- Bank or corporate exposures (those without an internal CRR);

The Group uses external credit ratings from the following ECAIs:

- Fitch Ratings
- Moody's Investors Service
- S&P

The Group determines ECAI issuer ratings or ECAI issue-specific ratings in the banking book in a process consistent with Part 4 of the BCR.

All other exposure classes are assigned risk weightings as prescribed in the HKMA's BCR.

Table 36: CR5 – Credit risk exposures by asset classes and by risk weights – for STC approach

	a	b	c	d	e	f	g	h	ha	i	j
											Total credit risk exposures amount (post CCF and post CRM)
Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
Exposure class	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 Sovereign exposures	2,680	-	-	-	-	-	-	-	-	-	2,680
2 PSE exposures	11,389	-	8,373	-	93	-	-	-	-	-	19,855
2a Of which: Domestic PSEs	-	-	8,133	-	-	-	-	-	-	-	8,133
2b Of which: Foreign PSEs	11,389	-	240	-	93	-	-	-	-	-	11,722
3 Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4 Bank exposures	-	-	117	-	-	-	-	-	-	-	117
5 Securities firm exposures	-	-	-	-	631	-	-	-	-	-	631
6 Corporate exposures	-	-	1,218	-	1,083	-	32,603	-	-	-	34,904
7 CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8 Cash items	-	-	-	-	-	-	-	-	-	-	-
9 Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10 Regulatory retail exposures	-	-	-	-	-	5,346	-	-	-	-	5,346
11 Residential mortgage loans	-	-	-	20,894	-	932	1,338	-	-	-	23,164
12 Other exposures which are not past due exposures	-	-	-	-	-	-	4,302	-	-	-	4,302
13 Past due exposures	11	-	-	-	-	-	76	345	-	-	432
14 Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15 Total	14,080	-	9,708	20,894	1,807	6,278	38,319	345	-	-	91,431

## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

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### **Credit risk mitigation**

The Group's approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primarily reliance on CRM. Depending on a customer's standing and the type of product, facilities may be provided on an unsecured basis. Nevertheless, mitigation of credit risk is an important aspect of effective management and takes in many forms.

The Group's general policy is to promote the use of CRM, justified by commercial prudence and good practice as well as capital efficiency. Policies covering the acceptability, structuring, terms, control and valuation with regard to different types of collateral security are established to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

#### Collateral

The most common method of mitigating credit risk is to take a charge over collateral. The Group has implemented guidelines on the acceptability of specific classes of collateral or CRM. Security structures and legal covenants are subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice.

While collateral is an important mitigant to credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather than to rely excessively on security. Facilities may be granted on unsecured basis depending on the customer's standing and the type of product. The principal collateral types are as follows:

- in the personal sector, charges over properties, securities, investment funds and deposits;
- in the commercial and industrial sector, charges over business assets such as properties, stocks, debtors, investment funds and deposits; and
- in the commercial real estate sector, charges over the properties being financed.

Repossessed assets are non-financial assets acquired in exchange for loans in order to achieve an orderly realisation, and are reported in the balance sheet within 'Other assets' at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowance). If excess funds arise after the debt has been repaid, they are made available either to repay other secured lenders with lower priority or are returned to the customer. The Group does not generally occupy repossessed properties for its business use.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

#### CRM under IRB Approach

The main types of recognised collateral taken by the Group are those as stated in section 80 of the BCR, including (but not limited to) cash on deposit, gold bullion, equities listed in a main index and/or a recognised exchange, CISs, various recognised debt securities, residential, industrial and commercial property.

The Group's policy provides that netting is only to be applied where it has the legal right to do so. Consistent with the BCR, only bilateral netting arrangements are included in the capital adequacy CRM calculation.

In terms of the application within IRB approach, credit risk mitigants are considered in two broad categories: first, those which reduce the intrinsic PD of an obligor and therefore operate as adjustments to PD estimation, and second, those which affect estimated recoverability of obligations and require adjustment of LGD. The first includes, for example, full parental or group company guarantees; the second, collateral security of various kinds such as cash, equity, properties, fixed assets such as motor vehicles, plant and machinery, stock and debtors, bank and sovereign guarantees.

#### CRM under STC Approach

As stated in sections 98 and 99 of the BCR, certain guarantees and credit derivative contracts are recognised for CRM purposes. The main types of guarantees are from sovereigns, corporates and banks. With corporate guarantees, in order for it to be recognised as a credit risk mitigant, it must have a credit rating of A- or better by Standard & Poor's Ratings Services, Fitch Ratings or a credit rating of A3 or better by Moody's Investors Service.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 37: CR3 – Overview of recognised credit risk mitigation

	a	b1	b	d	f
	Exposures unsecured: carrying amount HK\$m	Exposures to be secured HK\$m	Exposures secured by recognised collateral HK\$m	Exposures secured by recognised guarantees HK\$m	Exposures secured by recognised credit derivative contracts HK\$m
As at 31 Dec 2023					
1 Loans	347,097	605,066	499,047	106,019	-
2 Debt securities	393,688	676	-	676	-
3 <b>Total</b>	<b>740,785</b>	<b>605,742</b>	<b>499,047</b>	<b>106,695</b>	-
4 <i>of which: Defaulted</i>	<i>6,934</i>	<i>8,706</i>	<i>8,119</i>	<i>587</i>	-

Table 38: CR7 – Effects on RWA of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach

	a	b
	Pre-credit derivatives RWA HK\$m	Actual RWA HK\$m
As at 31 Dec 2023		
1 Corporate – Specialised lending under supervisory slotting criteria approach (PF)	-	-
2 Corporate – Specialised lending under supervisory slotting criteria approach (OF)	-	-
3 Corporate – Specialised lending under supervisory slotting criteria approach (CF)	-	-
4 Corporate – Specialised lending under supervisory slotting criteria approach (IPRE)	50,404	50,404
5 Corporate – Specialised lending (HVCRE)	-	-
6 Corporate – Small-and-medium sized corporates	49,941	49,941
7 Corporate – Other corporates	208,011	208,011
8 Sovereigns	10,084	10,084
9 Sovereign foreign PSEs	-	-
10 Multilateral development banks	1,684	1,684
11 Bank exposures – Banks	13,065	13,065
12 Bank exposures – Securities firms	466	466
13 Bank exposures – PSEs (excluding sovereign foreign PSEs)	-	-
14 Retail – Small business retail exposures	344	344
15 Retail – Residential mortgages to individuals	60,055	60,055
16 Retail – Residential mortgages to property-holding shell companies	532	532
17 Retail – QRRE	23,892	23,892
18 Retail – Other retail exposures to individuals	13,773	13,773
19 Equity – Equity exposures under market-based approach (simple risk-weight method)	16,300	16,300
20 Equity – Equity exposures under market-based approach (internal models method)	-	-
21 Equity – Equity exposures under PD/LGD approach (publicly traded equity exposures held for long-term investment)	-	-
22 Equity – Equity exposures under PD/LGD approach (privately owned equity exposures held for long-term investment)	-	-
23 Equity – Equity exposures under PD/LGD approach (other publicly traded equity exposures)	-	-
24 Equity – Equity exposures under PD/LGD approach (other equity exposures)	-	-
25 Equity – Equity exposures associated with equity investments in funds (CIS exposures)	558	558
26 Other – Cash items	3	3
27 Other – Other items	40,987	40,987
28 <b>Total (under the IRB calculation approaches)</b>	<b>490,099</b>	<b>490,099</b>

There is no impact on RWA, as the Group does not have credit derivative contracts used as recognised CRM.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 39: CR4 – Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

	a	b	c	d	e	f	
	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density		
	On-balance sheet amount	OBS amount	On-balance sheet amount	OBS amount	RWA	RWA density	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%	
<b>Exposure classes</b>							
1	Sovereign exposures	-	-	2,250	430	-	-
2	PSE exposures	19,426	1,105	19,328	527	1,721	9
2a	<i>Of which: Domestic PSEs</i>	7,606	1,105	7,606	527	1,627	20
2b	<i>Of which: Foreign PSEs</i>	11,820	-	11,722	-	94	1
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	116	-	117	-	24	20
5	Securities firm exposures	631	-	631	-	316	50
6	Corporate exposures	38,482	22,635	33,527	1,377	33,389	96
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	6,011	11,592	5,342	4	4,010	75
11	Residential mortgage loans	23,199	2,039	23,163	1	9,349	40
12	Other exposures which are not past due exposures	9,612	4,406	4,202	100	4,301	100
13	Past due exposures	432	-	432	-	592	137
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	<b>Total</b>	<b>97,909</b>	<b>41,777</b>	<b>88,992</b>	<b>2,439</b>	<b>53,702</b>	<b>59</b>

## Remark:

Exposures pre-CCF and pre-CRM are reported under obligor's corresponding exposure class. Where the exposure is covered by a guarantee, the credit protection covered portion of the exposure is reported under the exposure class of credit protection provider in columns (c) & (d).



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Model performance

The disclosure covers wholesale and retail models which have been approved by regulators. It validates the PD estimation by comparing the PD estimated by IRB Models against actual default experience. It shows that our IRB models are generally conservative.

Table 40.1: CR9 – Back-testing of PD per portfolio – for IRB approach (Wholesale)

Portfolio	PD Range	External rating equivalent (S&P)	External rating equivalent (Moody's)	External rating equivalent (Fitch)	Weighted average PD <sup>1</sup>	Arithmetic average PD by obligors <sup>1</sup>	Number of obligors <sup>2,3</sup>		Defaulted obligors in the year	of which: defaulted obligors in the year	Average historical annual default rate
							Beginning of the year	End of the year			
As at 31 Dec 2023											
<b>Sovereign</b>	0.00 to < 0.15	AAA to BBB	Aaa to Baa2	AAA to BBB	<b>0.01</b>	<b>0.01</b>	<b>23</b>	<b>20</b>	-	-	-
	0.15 to < 0.25	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
	0.25 to < 0.50	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
	0.50 to < 0.75	BB+ to BB	Ba1 to Ba2	BB+ to BB	-	-	-	-	-	-	-
	0.75 to < 2.50	BB- to B+	Ba3 to B2	BB- to B-	-	-	-	-	-	-	-
	2.50 to < 10.00	B to B-	B2 to Caa1	CCC+ to CCC	-	-	-	-	-	-	-
	10.00 to < 100.00	B- to C	Caa1 to C	CCC to C	-	-	-	-	-	-	-
<b>Bank</b>	0.00 to < 0.15	AAA to A-	Aaa to Baa1	AAA to BBB+	<b>0.03</b>	<b>0.06</b>	<b>82</b>	<b>88</b>	-	-	-
	0.15 to < 0.25	BBB+	Baa2	BBB	<b>0.22</b>	<b>0.22</b>	<b>9</b>	<b>8</b>	-	-	-
	0.25 to < 0.50	BBB	Baa3	BBB-	<b>0.37</b>	<b>0.37</b>	<b>3</b>	<b>5</b>	-	-	-
	0.50 to < 0.75	BBB-	Baa3	BBB-	<b>0.63</b>	<b>0.63</b>	<b>7</b>	<b>5</b>	-	-	-
	0.75 to < 2.50	BB+ to BB-	Ba1 to B1	BB+ to B+	<b>1.53</b>	<b>1.26</b>	<b>4</b>	<b>2</b>	-	-	-
	2.50 to < 10.00	B+ to B-	B2 to Caa1	B to CCC+	-	-	-	-	-	-	-
	10.00 to < 100.00	CCC+ to C	Caa1 to C	CCC to C	-	-	-	-	-	-	-
<b>Corporate – small-and-medium sized corporates</b>	0.00 to < 0.15	AAA to A-	Aaa to Baa1	AAA to BBB+	<b>0.11</b>	<b>0.11</b>	<b>64</b>	<b>39</b>	-	-	-
	0.15 to < 0.25	BBB+	Baa2	BBB	<b>0.22</b>	<b>0.22</b>	<b>109</b>	<b>82</b>	-	-	-
	0.25 to < 0.50	BBB	Baa3	BBB-	<b>0.37</b>	<b>0.37</b>	<b>201</b>	<b>147</b>	-	-	<b>0.14</b>
	0.50 to < 0.75	BBB-	Baa3	BBB-	<b>0.63</b>	<b>0.63</b>	<b>234</b>	<b>131</b>	<b>1</b>	-	<b>0.09</b>
	0.75 to < 2.50	BB+ to BB-	Ba1 to B1	BB+ to B+	<b>1.47</b>	<b>1.48</b>	<b>930</b>	<b>688</b>	<b>18</b>	-	<b>0.62</b>
	2.50 to < 10.00	B+ to B-	B2 to Caa1	B to CCC+	<b>4.96</b>	<b>3.95</b>	<b>202</b>	<b>149</b>	<b>10</b>	-	<b>2.21</b>
	10.00 to < 100.00	CCC+ to C	Caa1 to C	CCC to C	<b>13.79</b>	<b>13.06</b>	<b>17</b>	<b>22</b>	<b>1</b>	-	<b>21.81</b>
<b>Corporate – others<sup>4</sup></b>	0.00 to < 0.15	AAA to A-	Aaa to Baa1	AAA to BBB+	<b>0.08</b>	<b>0.10</b>	<b>193</b>	<b>131</b>	-	-	-
	0.15 to < 0.25	BBB+	Baa2	BBB	<b>0.22</b>	<b>0.22</b>	<b>165</b>	<b>145</b>	-	-	<b>0.45</b>
	0.25 to < 0.50	BBB	Baa3	BBB-	<b>0.37</b>	<b>0.37</b>	<b>199</b>	<b>218</b>	-	-	<b>0.46</b>
	0.50 to < 0.75	BBB-	Baa3	BBB-	<b>0.63</b>	<b>0.63</b>	<b>248</b>	<b>238</b>	<b>2</b>	-	<b>0.55</b>
	0.75 to < 2.50	BB+ to BB-	Ba1 to B1	BB+ to B+	<b>1.37</b>	<b>1.51</b>	<b>794</b>	<b>833</b>	<b>3</b>	-	<b>0.77</b>
	2.50 to < 10.00	B+ to B-	B2 to Caa1	B to CCC+	<b>4.06</b>	<b>4.01</b>	<b>246</b>	<b>228</b>	<b>8</b>	-	<b>2.76</b>
	10.00 to < 100.00	CCC+ to C	Caa1 to C	CCC to C	<b>18.18</b>	<b>14.78</b>	<b>37</b>	<b>38</b>	<b>13</b>	-	<b>24.65</b>

Note:

- 1 The weighted average PD% and the arithmetic average PD% by obligors are based on the position at the beginning of the year.
- 2 The number of obligors represents the obligors rated by key wholesale IRB models directly.
- 3 The number of obligors on corporate counterparty is being reported at counterparty level, while the number of obligors on Multilateral Development Bank (grouped under Sovereign portfolio) and Bank are being reported at entity level. Sovereigns are reported at country level based on local currency and foreign currency ratings.
- 4 Specialised lending exposures are excluded.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 40.2: CR9 – Back-testing of PD per portfolio – for IRB approach (Retail)

a	b	c	d	e	f		g	h	i
Portfolio	PD Range	External rating equivalent**	Weighted average PD <sup>1</sup>	Arithmetic average PD by obligors <sup>1</sup>	Number of obligors <sup>2</sup>		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
					Beginning of the year	End of the year			
As at 31 Dec 2023			%	%					%
<b>Retail – QRRE</b>	0.00 to < 0.15		<b>0.07</b>	<b>0.07</b>	<b>1,903,946</b>	<b>1,944,346</b>	<b>1,117</b>	<b>15</b>	<b>0.05</b>
	0.15 to < 0.25		<b>0.22</b>	<b>0.22</b>	<b>201,246</b>	<b>194,183</b>	<b>261</b>	<b>9</b>	<b>0.11</b>
	0.25 to < 0.50		<b>0.40</b>	<b>0.40</b>	<b>220,694</b>	<b>230,872</b>	<b>522</b>	-	<b>0.19</b>
	0.50 to < 0.75		<b>0.60</b>	<b>0.59</b>	<b>62,060</b>	<b>63,553</b>	<b>228</b>	<b>9</b>	<b>0.37</b>
	0.75 to < 2.50		<b>1.42</b>	<b>1.34</b>	<b>241,945</b>	<b>249,245</b>	<b>1,151</b>	<b>9</b>	<b>0.48</b>
	2.50 to < 10.00		<b>4.69</b>	<b>4.51</b>	<b>71,779</b>	<b>75,343</b>	<b>1,414</b>	<b>10</b>	<b>2.09</b>
	10.00 to < 100.00		<b>32.94</b>	<b>39.84</b>	<b>15,819</b>	<b>17,821</b>	<b>2,024</b>	-	<b>12.00</b>
<b>Retail – residential mortgage exposures</b>	0.00 to < 0.15		<b>0.08</b>	<b>0.09</b>	<b>55,302</b>	<b>55,693</b>	<b>18</b>	<b>1</b>	<b>0.03</b>
	0.15 to < 0.25		<b>0.18</b>	<b>0.17</b>	<b>30,477</b>	<b>33,525</b>	<b>10</b>	-	<b>0.04</b>
	0.25 to < 0.50		<b>0.34</b>	<b>0.34</b>	<b>69</b>	<b>66</b>	-	-	-
	0.50 to < 0.75		<b>0.52</b>	<b>0.52</b>	<b>7,746</b>	<b>7,780</b>	<b>6</b>	-	<b>0.08</b>
	0.75 to < 2.50		<b>0.95</b>	<b>0.96</b>	<b>14,585</b>	<b>14,931</b>	<b>18</b>	<b>1</b>	<b>0.13</b>
	2.50 to < 10.00		<b>4.59</b>	<b>4.61</b>	<b>3,964</b>	<b>4,220</b>	<b>25</b>	-	<b>0.50</b>
	10.00 to < 100.00		<b>20.89</b>	<b>20.92</b>	<b>2,735</b>	<b>2,937</b>	<b>98</b>	-	<b>2.65</b>
<b>Retail – small business retail exposures</b>	0.00 to < 0.15		<b>0.07</b>	<b>0.07</b>	<b>1,390</b>	<b>1,316</b>	-	-	-
	0.15 to < 0.25		<b>0.19</b>	<b>0.19</b>	<b>145</b>	<b>116</b>	-	-	-
	0.25 to < 0.50		-	-	-	<b>7</b>	-	-	-
	0.50 to < 0.75		<b>0.55</b>	<b>0.55</b>	<b>203</b>	<b>204</b>	-	-	-
	0.75 to < 2.50		<b>1.33</b>	<b>1.34</b>	<b>146</b>	<b>134</b>	-	-	<b>0.19</b>
	2.50 to < 10.00		<b>4.93</b>	<b>4.91</b>	<b>180</b>	<b>179</b>	<b>7</b>	-	<b>1.15</b>
	10.00 to < 100.00		<b>37</b>	<b>37</b>	<b>33</b>	<b>29</b>	-	-	-
<b>Other retail exposures to individuals</b>	0.00 to < 0.15		<b>0.08</b>	<b>0.08</b>	<b>11,620</b>	<b>10,625</b>	<b>1</b>	-	<b>0.02</b>
	0.15 to < 0.25		<b>0.22</b>	<b>0.20</b>	<b>11,028</b>	<b>10,689</b>	<b>11</b>	-	<b>0.08</b>
	0.25 to < 0.50		<b>0.32</b>	<b>0.33</b>	<b>45,543</b>	<b>40,435</b>	<b>79</b>	<b>6</b>	<b>0.16</b>
	0.50 to < 0.75		<b>0.59</b>	<b>0.60</b>	<b>8,944</b>	<b>8,612</b>	<b>41</b>	<b>7</b>	<b>0.36</b>
	0.75 to < 2.50		<b>1.40</b>	<b>1.42</b>	<b>27,511</b>	<b>27,587</b>	<b>243</b>	<b>35</b>	<b>0.90</b>
	2.50 to < 10.00		<b>4.22</b>	<b>4.77</b>	<b>13,779</b>	<b>14,721</b>	<b>452</b>	<b>70</b>	<b>3.01</b>
	10.00 to < 100.00		<b>18.18</b>	<b>19.66</b>	<b>4,677</b>	<b>5,681</b>	<b>443</b>	<b>10</b>	<b>9.91</b>

\*\* External rating equivalent is not applicable to retail exposures.

Note:

1. The weighted average PD% and the arithmetic average PD% by obligors are based on the position at the beginning of the year.
2. The number of obligors is based on account level information for all retail IRB portfolios.

## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

### **Counterparty credit risk exposures**

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#### **Counterparty credit risk management**

CCR arises for derivatives and SFTs. It is calculated in both the trading and banking books, and is the risk that a counterparty may default before settlement of the transaction. CCR is generated primarily from our wholesale global businesses.

The Group is permitted to apply the following methods to determine exposure values for CCR: the SA-CCR approach – for derivatives; and the comprehensive approach to recognition of collateral for SFTs.

Under the SA-CCR approach, the EAD is calculated as the sum of RC and PFE multiplied by an alpha factor of 1.4.

The PFE measures used for CCR management are calibrated to the 95th percentile. The measures consider volatility, trade maturity and the counterparty legal documentation covering netting and collateral.

Limits for CCR exposures, including to CCPs, are assigned within the overall credit process. The credit risk function assigns a limit against each counterparty to cover derivatives exposure which may arise as a result of a counterparty default. The magnitude of this limit will depend on the overall risk appetite and type of derivatives and SFT trading undertaken with a counterparty.

#### **Credit valuation adjustment**

CVA represents the risk of mark-to-market losses on the expected counterparty risk to over-the-counter ('OTC') derivatives. The Group uses the standardised approach to calculate the CVA capital charge. Certain exposures to qualifying central counterparties are exempt from CVA.

#### **Collateral arrangements**

Our policy is to revalue all traded transactions and associated collateral positions on a daily basis. An independent collateral management function manages the collateral process including pledging collateral, receiving collateral, investigating disputes and following up on non-receipts.

Eligible collateral types are controlled under a policy to ensure price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes. A valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement.

#### **Credit ratings downgrade**

A credit rating downgrade clause in a Master Agreement or a credit rating downgrade threshold clause in a Credit Support Annex ('CSA') is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

At 31 December 2023, the potential value of the additional collateral pertaining to International Swaps and Derivatives Association ('ISDA') CSA downgrade thresholds that we would potentially need to post with counterparties in the event of downgrade of our rating was nil.

#### **Wrong-way risk**

Wrong-way risk occurs when a counterparty's exposures are adversely correlated with its credit quality.

There are two types of wrong-way risk.

– General wrong-way risk occurs when the probability of counterparty default is positively correlated with general risk factors, for example, where a counterparty is resident and/or incorporated in a higher-risk country and seeks to sell a non-domestic currency in exchange for its home currency.

– Specific wrong-way risk occurs in self-referencing transactions. These are transactions in which exposure is driven by capital or financing instruments issued by the counterparty and occurs where exposure from the Bank's perspective materially increases as the value of the counterparty's capital or financing instruments referenced in the contract decreases. It is the Bank's policy that specific wrong-way transactions are approved on a case-by-case basis.

We use a range of tools to monitor and control wrong-way risk, including requiring the business to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines. The Traded Risk functions are responsible for the control and monitoring process within an overarching HSBC Group framework and limit framework.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Central counterparties

While exchange traded derivatives have been cleared through CCP's for many years, recent regulatory initiatives designed to reduce systemic risk in the banking system are directing increasing volumes of OTC derivatives to be cleared through CCPs.

To manage the significant concentration of risk in CCPs that results from this, the Bank has adopted a risk appetite framework to manage risk accordingly, at the level of individual CCP and globally. The Bank undertakes in-depth due diligence of the unique risks associated with these organisations.

Table 41: CCR1 – Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

	a	b	c	d	e	f
	RC HK\$m	PFE HK\$m	Effective expected positive exposure (‘EPE’) HK\$m	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM HK\$m	RWA HK\$m
As at 31 Dec 2023						
1 SA-CCR approach (for derivative contracts)	6,690	9,845		1.4	23,149	5,918
1a CEM (for derivative contracts)	-	-		N/A	-	-
2 IMM (CCR) approach			-	-	-	-
3 Simple approach (for SFTs)					-	-
4 Comprehensive approach (for SFTs)					1,554	156
5 VaR for SFTs					-	-
6 <b>Total</b>						6,074

Table 42: CCR2 – CVA capital charge

	a	b
	EAD post- CRM HK\$m	RWA HK\$m
As at 31 Dec 2023		
Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1 (i) VaR (after application of multiplication factor if applicable)		-
2 (ii) SVaR (after application of multiplication factor if applicable)		-
3 Netting sets for which CVA capital charge is calculated by the standardised CVA method	23,149	7,358
4 <b>Total</b>	23,149	7,358

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 43: CCR8 – Exposures to CCPs

	a	b
	Exposure after CRM HK\$m	RWA HK\$m
As at 31 Dec 2023		
<b>1 Exposures of the AI as clearing member or clearing client to qualifying CCPs (total)</b>		<b>169</b>
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	4,291	157
3 (i) OTC derivative transactions	4,291	157
4 (ii) Exchange-traded derivative contracts	-	-
5 (iii) SFTs	-	-
6 (iv) Netting sets subject to valid cross-product netting agreements	-	-
7 Segregated initial margin	-	
8 Unsegregated initial margin	267	9
9 Funded default fund contributions	111	3
10 Unfunded default fund contributions	-	-
<b>11 Exposures of the AI as clearing member or clearing client to non-qualifying CCPs (total)</b>		<b>-</b>
12 Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	-	-
13 (i) OTC derivative transactions	-	-
14 (ii) Exchange-traded derivative contracts	-	-
15 (iii) SFTs	-	-
16 (iv) Netting sets subject to valid cross-product netting agreements	-	-
17 Segregated initial margin	-	
18 Unsegregated initial margin	-	-
19 Funded default fund contributions	-	-
20 Unfunded default fund contributions	-	-

Table 44: CCR5 – Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	a	b	c	d	e	f
	Derivative contracts				SFTs	
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received	Fair value of posted collateral
	Segregated HK\$m	Unsegregated HK\$m	Segregated HK\$m	Unsegregated HK\$m	HK\$m	HK\$m
As at 31 Dec 2023						
1 Cash – domestic currency	-	12	-	537	1,415	2,097
2 Cash – other currencies	-	669	-	1,451	11,230	30,715
3 Domestic sovereign debt	-	-	-	-	891	1,443
4 Other sovereign debt	261	-	-	247	6,449	10,825
5 Government agency debt	-	-	-	-	-	-
6 Corporate bonds	-	-	-	-	20,620	-
7 Equity securities	-	-	-	-	-	-
8 Other collateral	36	-	-	-	6,113	3,192
<b>9 Total</b>	<b>297</b>	<b>681</b>	<b>-</b>	<b>2,235</b>	<b>46,718</b>	<b>48,272</b>

## BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

### Counterparty default risk under internal ratings-based approach

Table 45: CCR4 – Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach

	a	b	c	d	e	f	g
As at 31 Dec 2023	EAD post-	Average PD	Number of	Average LGD	Average	RWA	RWA density
PD scale	CRM	%	obligors	%	maturity	HK\$m	%
	HK\$m				years		
<b>Sovereign</b>							
0.00 to < 0.15	62	0.02	2	42.2	0.92	3	5
0.15 to < 0.25	-	-	-	-	-	-	-
0.25 to < 0.50	-	-	-	-	-	-	-
0.50 to < 0.75	-	-	-	-	-	-	-
0.75 to < 2.50	-	-	-	-	-	-	-
2.50 to < 10.00	-	-	-	-	-	-	-
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>62</b>	<b>0.02</b>	<b>2</b>	<b>42.2</b>	<b>0.92</b>	<b>3</b>	<b>5</b>
<b>Bank</b>							
0.00 to < 0.15	18,938	0.04	87	31.3	2.31	2,791	15
0.15 to < 0.25	240	0.22	14	45.0	0.68	93	39
0.25 to < 0.50	384	0.37	6	45.0	0.71	201	52
0.50 to < 0.75	-	-	-	-	-	-	-
0.75 to < 2.50	-	-	-	-	-	-	-
2.50 to < 10.00	-	-	-	-	-	-	-
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>19,562</b>	<b>0.07</b>	<b>107</b>	<b>29.1</b>	<b>1.08</b>	<b>3,085</b>	<b>16</b>
<b>Corporates</b>							
0.00 to < 0.15	1,232	0.07	25	29.1	1.08	156	13
0.15 to < 0.25	164	0.22	14	58.1	1.30	85	52
0.25 to < 0.50	86	0.37	10	49.9	2.53	57	67
0.50 to < 0.75	327	0.63	12	57.5	1.00	253	77
0.75 to < 2.50	412	1.54	31	56.6	1.24	458	111
2.50 to < 10.00	269	5.81	14	54.0	2.44	489	182
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>2,490</b>	<b>1.03</b>	<b>106</b>	<b>42.7</b>	<b>1.31</b>	<b>1,498</b>	<b>60</b>
<b>Retail</b>							
0.00 to < 0.15	-	-	-	-	-	-	-
0.15 to < 0.25	-	-	-	-	-	-	-
0.25 to < 0.50	-	-	-	-	-	-	-
0.50 to < 0.75	-	-	-	-	-	-	-
0.75 to < 2.50	-	-	-	-	-	-	-
2.50 to < 10.00	-	-	-	-	-	-	-
10.00 to < 100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (sum of all portfolios)</b>	<b>22,114</b>	<b>0.18</b>	<b>215</b>	<b>30.7</b>	<b>1.10</b>	<b>4,586</b>	<b>21</b>

*Note:*

Details on the scope of models and percentage of RWA covered by models for each of the regulatory portfolios can be found in the 'Credit risk under internal ratings-based approach' section of this document.

The Group has not used the IMM(CCR) approach to calculate its default risk exposure.

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**
**Counterparty default risk under standardised approach**

Table 46: CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

As at 31 Dec 2023		a	b	c	ca	d	e	f	g	ga	h	i
Risk weight		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
Exposure class		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	189	-	1,840	-	-	-	-	-	2,029
2a	<i>Of which: Domestic PSEs</i>	-	-	189	-	-	-	-	-	-	-	189
2b	<i>Of which: Foreign PSEs</i>	-	-	-	-	1,840	-	-	-	-	-	1,840
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	-	-	-	-	-	-	-	-	-
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	277	-	-	-	277
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	97	-	-	-	-	97
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	176	-	-	-	176
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	<b>Total</b>	-	-	189	-	1,840	97	453	-	-	-	2,579

## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

### **Market risk**

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#### **Overview and governance**

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

Exposure to market risk is separated into two portfolios types:

– Trading portfolios: these comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.

– Banking portfolios: these comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income ('OCI') and debt instruments measured at amortised cost. These portfolios also include non-trading book foreign exchange ('NTBFX') exposures, where risk may arise from change in the accounting value of assets and liabilities held outside of the trading book, due to movements in foreign exchange rates. NTBFX exposures originate primarily from structural foreign exchange exposures and transactional foreign exchange exposures.

Where appropriate, the Group applies similar risk management policies and measurement techniques to both trading and banking portfolios. The Group's objective is to manage and control market risk exposures to optimise return on risk while maintaining a market risk profile consistent with the established risk appetite.

#### **Market risk governance**

The Group's total VaR, trading VaR and SVaR reside in Global Markets which manages market risk within overall risk limits set by the CRCO and approved by the Board.

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#### **Market risk measures**

##### **Monitoring and limiting market risk exposures**

The Group uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, VaR, and stress testing.

##### **Sensitivity analysis**

The Group uses sensitivity measures to monitor the market risk positions within each asset class and risk type. Granular sensitivity limits are set for each trading desk taking into consideration market liquidity, customer demand and capital constraints, amongst other factors.

##### **VaR**

VaR is a technique that estimates the potential mark-to-market losses on derivative, security and money market positions in the trading and banking portfolios as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is an integral part of our market risk management framework and is calculated for a scope of trading and banking positions which is wider than the set of trading positions which are capitalised under a VaR treatment.

Our models are predominantly based on historical simulation. VaR is calculated at a 99% confidence level for a one-day holding period.

Our VaR models use historical series of market rates and prices, implicitly taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.



## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

The primary categories of risk factors driving market risk are summarised below:

Risk factor	Description
Foreign exchange	Risk arising from changes in foreign exchange rates and volatilities.
Interest rate	Risk arising from changes in the level of interest rates that may impact prices of interest rate sensitive assets such as interest rate swaps.
Equity	Risk arising from changes in equity prices, volatilities and dividend yields.
Commodity	Risk arising from changes in commodity prices.
Credit	Risk arising from changes in the level of credit spreads that may impact prices of credit spread sensitive assets.

Our model uses a mixed approach when applying changes in market rates and prices:

- For equity, credit and foreign exchange risk factors, VaR scenarios are calculated on a relative return basis.
- For interest rates, a mixed approach is used. The scenarios applied to volatilities are on a relative return basis, whereas the scenarios applied to interest rate curves are calculated using a hybrid of absolute and relative returns. This approach enables the VaR to smoothly adapt to either low or high interest rate environments and to support negative rates.

We adopt standardised approach and internal model approach for specific and general risk respectively. The Group uses the past two years as the historical data set in our VaR models and the scenarios are updated on a weekly basis. These scenarios are then applied to the market baselines and positions on a daily basis. The models incorporate the effect of option features on the underlying exposures.

The valuation approach used in our model varies:

- Desks trading non-linear instruments use a full revaluation approach; and
- Desks trading only linear instruments, such as bonds and swaps, use a sensitivity based approach.

The nature of the VaR model means that an increase in observed market volatility will lead to an increase in VaR even without any changes in the underlying positions.

### VaR model limitations

Although a valuable guide to risk, VaR is used with awareness of its limitations, for example:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature; As the model is calibrated on the last 500 business days, it does not adjust instantaneously to a change in the market regime;
- The use of a 1-day holding period for risk management purposes of trading and non-trading books assumes that this short period is sufficient to hedge or liquidate all positions;
- The use of a 99% confidence level, by definition does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

### Risk not in VaR ('RNIV') framework

The RNIV framework captures risks from exposures in the trading book that are not captured well by the VaR model. Our VaR model is designed to capture significant basis risk such as cross-currency basis. Other basis risks that are not completely covered in VaR are complemented by our RNIV calculations and are integrated into our capital framework.

Risk factors are reviewed on a regular basis and are either incorporated directly in the VaR models, where possible, or quantified through the VaR-based RNIV approach or a stress test approach within the RNIV framework. While VaR-based RNIVs are calculated by using historical scenarios, stress-type RNIVs are estimated on the basis of stress scenarios whose severity is calibrated to be in line with the capital adequacy requirements.

### Backtesting

The Group validates daily the accuracy of the VaR model by back-testing the model against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenues of intra-day transactions.

The actual number of profits or losses in excess of VaR over this period can therefore be used to gauge how well the models are performing. A VaR model is deemed satisfactory if it experiences fewer than five profit or loss exceptions in a 250-day period. VaR backtesting is performed at various levels of our Group entity hierarchy. Back-testing covers entities which have approval to use VaR in the calculation of market risk regulatory capital requirements.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Stress testing

Stress testing is an integral part of our market risk management framework which is used to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity and the overall Group levels. The risk appetite around potential stress losses for the Group is set and monitored against referral limits.

Market risk reverse stress tests are designed to identify vulnerabilities in our portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be local or idiosyncratic in nature, and complement the systematic top-down stress testing.

SVaR and stress testing, together with reverse stress testing, provide management with insights regarding the "tail risk" beyond VaR for which the Group appetite is limited.

The market risk stress testing incorporates historical and hypothetical events.

### Market risk capital models

The Group has permission to use a number of market risk capital models to calculate regulatory capital as listed in the table below. For regulatory purposes, the trading book comprises all positions in financial instruments and commodities held with trading intent and positions where it can be demonstrated that they hedge positions in the trading book. Trading book positions must either be free of any restrictive covenants on their tradability or be capable of being hedged.

Positions in the trading book are subject to market risk-based rules, i.e. market risk capital, calculated using regulatory approved models. Where the Group does not have permission to use internal models, market risk capital is calculated using the standardised approach.

Model Component	Confidence level	Liquidity	Model description and methodology
VaR	99%	10 day	Uses most recent two years' history of daily returns to determine a loss distribution. The result is scaled, using the square root of 10, to provide an equivalent 10-day loss.
SVaR	99%	10 day	SVaR is calibrated to a one-year period of stress observed in history, calculated using 10 day returns.

### VaR

VaR used for regulatory purposes differs from VaR used for management purpose with key differences listed below.

VaR	Regulatory	Management
Scope	Regulatory approval	Broader population of trading and banking book positions
Confidence interval	99%	99%
Liquidity horizon	10-day	1-day
Data set	Past 2 years	Past 2 years

We calculate VaR for regulatory purposes only in respect of the trading books for which we have received approval to use an internal model from the regulator. Regulatory VaR levels contribute to the calculation of market risk RWAs.

### SVaR

SVaR is primarily used for regulatory capital purposes and is integrated into the risk management process to ensure prudent capital management. SVaR complements other risk measures by providing the potential losses under stressed market conditions.

SVaR modelling follows the same approach as our VaR risk measure, except that:

- potential market movements employed for SVaR calculations are based on a continuous one-year period of stress for the trading portfolio;
- it is calculated to a 99% confidence using a 10-day holding period; and
- it is based on an actual 10-day holding period, whereas Regulatory VaR is based on a one-day holding period scaled to 10 days.

## BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to market risk under STM and IMM approaches.

### Market risk under standardised approach

Table 47: MR1 – Market risk under STM approach

	a
	RWA HK\$m
As at 31 Dec 2023	
<b>Outright product exposures</b>	
1 Interest rate exposures (general and specific risk)	221
2 Equity exposures (general and specific risk)	-
3 Foreign exchange (including gold) exposures	-
4 Commodity exposures	2
<b>Option exposures</b>	
5 Simplified approach	-
6 Delta-plus approach	-
7 Other approach	-
8 Securitisation exposures	-
<b>9 Total</b>	<b>223</b>

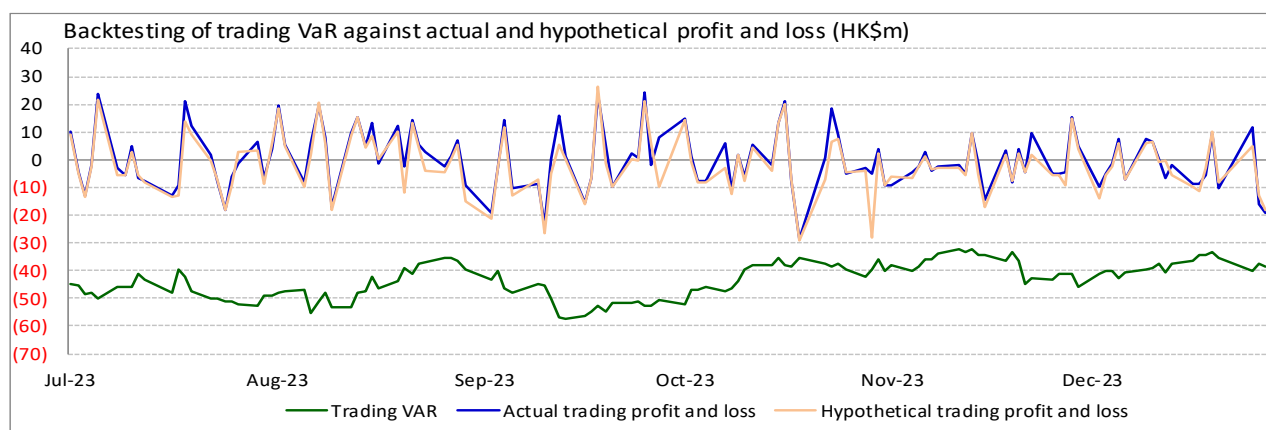
## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Analysis of VaR, stressed VaR and incremental risk charge measures

Table 48: MR3 – IMM approach values for market risk exposures

		a
As at 31 Dec 2023		Value HK\$m
<b>VaR (10 days – one-tailed 99% confidence interval)</b>		
1	Maximum Value	181
2	Average Value	137
3	Minimum Value	102
4	Period End	121
<b>SVaR (10 days – one-tailed 99% confidence interval)</b>		
5	Maximum Value	354
6	Average Value	300
7	Minimum Value	248
8	Period End	258
<b>IRC (99.9% confidence interval)</b>		
9	Maximum value	-
10	Average value	-
11	Minimum value	-
12	Period end	-
<b>CRC (99.9% confidence interval)</b>		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-
17	Floor	-

Table 49: MR4 – Comparison of VaR estimates with gains or losses



There was no VaR back-testing loss exception in the second half year of 2023.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Prudent valuation adjustment

The Group has documented policies and maintains systems and controls for the calculation of PVA. Prudent value is an estimated conservative pricing with a 90% degree of certainty that would be received to sell an asset or paid to transfer a liability in orderly transactions occurring between market participants at the balance sheet date. The Group's methodology addresses fair value uncertainties arising from a number of sources; market price uncertainty, bid offer uncertainty, model risk, concentration, administration cost, unearned credit spreads and investing and funding costs.

Table 50: PV1 – Prudent valuation adjustments

	a	b	c	d	e	f	g	h
	Equity	Interest	Foreign	Credit	Commo-	Total	Of which:	Of which:
	HK\$m	rates	Exchange	Credit	dities	Total	In the	In the
As at 31 Dec 2023	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	trading	banking
							book	book
							HK\$m	HK\$m
1 Close-out uncertainty	54	66	2	-	-	122	34	88
2 -of which:								
Mid-market value	54	38	2	-	-	94	23	71
3 Close-out costs	-	11	-	-	-	11	7	4
4 Concentration	-	17	-	-	-	17	4	13
5 Early termination	-	-	-	-	-	-	-	-
6 Model risk	-	1	-	-	-	1	-	1
7 Operational risks	5	6	1	-	-	12	4	8
8 Investing and funding costs	-	-	-	-	-	-	-	-
9 Unearned credit spreads	1	11	6	-	-	18	18	-
10 Future administrative costs	-	-	-	-	-	-	-	-
11 Other adjustments	-	-	-	-	-	-	-	-
<b>12 Total adjustments</b>	<b>60</b>	<b>84</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>153</b>	<b>56</b>	<b>97</b>

Note:

The numbers above represent negative valuation adjustments for assets measured at fair value.

### Liquidity information

The LCR aims to ensure that a bank has sufficient unencumbered HQLA to meet its liquidity needs in a 30 calendar day liquidity stress scenario. The Group also uses the NSFR as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR requires institutions to maintain a minimum amount of stable funding based on assumptions of asset liquidity.

The following table displays the LCR and NSFR levels on three reporting bases in accordance with rules 10(1)(a), 10(1)(b) and 11(1) of the BLR:

Table 51: LIQA – LCRs and NSFRs on three liquidity reporting bases

	LCR	NSFR
	%	%
As at 31 Dec 2023		
Hong Kong Office	289.4	170.1
Unconsolidated	282.8	169.1
Consolidated	260.7	168.4

Information relating to the Group's approach to liquidity risk management, including customised measurement tools and metrics, and details of collateral pools and funding sources are set out in pages 90 to 94 of the Group's 2023 Annual Report\*. The balance sheet items, broken down into maturity buckets are disclosed in Note 20 'Maturity Analysis of assets and liabilities' on the consolidated financial statements in pages 228 to 230 of the Group's 2023 Annual Report\*.

\* Refers to printed version. The page reference of Annual Report (text version) is as follows:

Annual Report (Printed version)      Annual Report (Text version)

Pages 90 to 94

Pages 105 to 110

Pages 228 to 230

Pages 269 to 270

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

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

Table 52: Average liquidity coverage ratio

	<b>Quarter ended</b>
	<b>31 Dec</b>
	<b>2023</b>
	<b>%</b>
Average LCR	<b>260.6</b>

The average LCR was 260.6% for the quarter ended 31 December 2023. The liquidity position of the Group remained strong and above the statutory requirement of 100%. The average LCR increased from 240.1% for the quarter ended 30 September 2023 to 260.6% for the quarter ended 31 December 2023, mainly reflecting the increase in holding of HQLA as a result of the increase in commercial surplus.

The composition of the Group's HQLA as defined under Schedule 2 of the BLR is shown as below. The majority of the HQLA held by the Group are Level 1 assets which comprise mainly of government debt securities.

Table 53: Total weighted amount of high quality liquid assets

	<b>Weighted value</b>
	<b>(average) for the</b>
	<b>quarter ended</b>
	<b>31 Dec</b>
	<b>2023</b>
	<b>HK\$m</b>
Level 1 assets	<b>369,952</b>
Level 2A assets	<b>10,920</b>
Level 2B assets	<b>2,996</b>
<b>Total weighted amount of HQLA</b>	<b>383,868</b>

### Sources of funding

Our primary sources of funding are customer deposits. We issue wholesale securities to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

### Currency mismatch

In times of stress it cannot automatically be assumed that one currency can always be converted for another, even if those currencies are 'hard' currencies. LCR is therefore assessed by single currency for those that are material. In some currencies, convertibility is restricted by regulators and central banks and this restriction results in local currency not being convertible offshore or even onshore. HSBC Group policy requires all operating entities to manage currency mismatch risks for material currencies. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the foreign exchange swap markets. Limits are approved by the local Asset and Liability Management Committee ('ALCO')/Tactical Asset and Liability Management Committee ('TALCO'), and monitored by the local ALCO.

### Additional contractual obligations

Most of the Group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are ISDA compliant CSA contracts), the additional collateral required to post in the event of downgrade in credit ratings is nil.

A summary of the Group's current policies and practices for the management of liquidity and funding risk is set out in pages 90 to 94 of the Group's 2023 Annual Report\*.

\* Refers to printed version. The page reference of Annual Report (text version) is pages 105 to 110.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

The following table sets out the required disclosure items under the Liquidity Coverage Ratio Standard Disclosure Template as specified by the HKMA. Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarter ended on 31 December 2023 was 74.

Table 54: LIQ1 – Liquidity coverage ratio – for category 1 institution

		Quarter ended 31 Dec 2023 (74 data points)	
		a	b
Basis of disclosure: consolidated		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
<b>A HQLA</b>			
1	Total HQLA		383,868
<b>B Cash outflows</b>			
2	Retail deposits and small business funding, of which:	879,997	72,939
3	<i>Stable retail deposits and stable small business funding</i>	215,144	6,454
4	<i>Less stable retail deposits and less stable small business funding</i>	664,853	66,485
4a	<i>Retail term deposits and small business term funding</i>	-	-
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	204,875	92,030
6	<i>Operational deposits</i>	24,592	5,530
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	179,482	85,699
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	801	801
9	Secured funding transactions (including securities swap transactions)		-
10	Additional requirements, of which:	123,169	19,380
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	3,781	3,781
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	3,524	3,524
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	115,864	12,075
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	22,598	22,598
15	Other contingent funding obligations (whether contractual or non-contractual)	432,308	2,389
16	Total cash outflows		209,336
<b>C Cash inflows</b>			
17	Secured lending transactions (including securities swap transactions)	11,950	7,091
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	79,029	41,344
19	Other cash inflows	25,502	13,301
20	Total cash inflows	116,481	61,736
<b>D LCR (adjusted value)</b>			
21	Total HQLA		383,868
22	Total net cash outflows		147,600
23	LCR (%)		260.6%

**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 55: LIQ2 – Net stable funding ratio – for category 1 institution

Basis of disclosure: consolidated		Quarter ended 31 Dec 2023					Weighted amount HK\$m
		Unweighted value by residual maturity					
		No specified term to maturity HK\$m	<6 months or repayable on demand HK\$m	6 months to < 12 months HK\$m	12 months or more HK\$m		
	Footnote						
<b>A. ASF item</b>							
1	Capital:	168,198	-	-	-	168,198	
2	Regulatory capital	168,198	-	-	-	168,198	
2a	Minority interests not covered by row 2	-	-	-	-	-	
3	Other capital instruments	-	-	-	-	-	
4	Retail deposits and small business funding:	-	903,261	-	-	823,500	
5	Stable deposits		211,299	-	-	200,734	
6	Less stable deposits		691,962	-	-	622,766	
7	Wholesale funding:	-	311,524	6,078	166	132,344	
8	Operational deposits		24,466	-	-	12,233	
9	Other wholesale funding	-	287,058	6,078	166	120,111	
10	Liabilities with matching interdependent assets	-	-	-	-	-	
11	Other liabilities:	56,614	25,181	7,884	31,288	35,230	
12	Net derivative liabilities	-					
13	All other funding and liabilities not included in the above categories	56,614	25,181	7,884	31,288	35,230	
14	<b>Total ASF</b>					<b>1,159,272</b>	
<b>B. RSF item</b>							
15	Total HQLA for NSFR purposes	1	393,133			10,622	
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-	
17	Performing loans and securities:	41,442	299,091	107,763	568,954	599,611	
18	Performing loans to financial institutions secured by Level 1 HQLA	-	7,474	-	-	747	
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	1	94,329	2,588	9,559	25,003	
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	38,425	163,369	90,804	202,966	331,941	
21	With a risk-weight of less than or equal to 35% under the STC approach	36	690	39	1,605	1,431	
22	Performing residential mortgages, of which:	-	8,357	7,139	332,828	228,884	
23	With a risk-weight of less than or equal to 35% under the STC approach	-	6,579	6,515	308,839	207,293	
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	3,016	25,562	7,232	23,601	13,036	
25	Assets with matching interdependent liabilities	-	-	-	-	-	
26	Other assets:	80,511	7,005	-	1,045	73,164	
27	Physical traded commodities, including gold	1,161				987	
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	2,271				1,930	
29	Net derivative assets	278				278	
30	Total derivative liabilities before adjustments for deduction of variation margin posted	3,275				164	
31	All other assets not included in the above categories	73,526	7,005	-	1,045	69,805	
32	OBS items	1		521,048		4,945	
33	<b>Total RSF</b>					<b>688,342</b>	
34	<b>NSFR (%)</b>					<b>168.4%</b>	



**BANKING DISCLOSURE STATEMENT (unaudited) (continued)**

Table 55: LIQ2 – Net stable funding ratio – for category 1 institution (continued)

Basis of disclosure: consolidated		Quarter ended 30 Sep 2023					Weighted amount HK\$m
		Unweighted value by residual maturity					
		No specified term to maturity HK\$m	<6 months or repayable on demand HK\$m	6 months to < 12 months HK\$m	12 months or more HK\$m		
	Footnote						
<b>A. ASF item</b>							
1	Capital:	163,931	-	-	-	163,931	
2	Regulatory capital	163,931	-	-	-	163,931	
2a	Minority interests not covered by row 2	-	-	-	-	-	
3	Other capital instruments	-	-	-	-	-	
4	Retail deposits and small business funding:	-	874,217	-	-	797,585	
5	Stable deposits		215,798	-	-	205,008	
6	Less stable deposits		658,419	-	-	592,577	
7	Wholesale funding:	-	299,612	8,758	526	134,094	
8	Operational deposits		23,966	-	-	11,983	
9	Other wholesale funding	-	275,646	8,758	526	122,111	
10	Liabilities with matching interdependent assets	-	-	-	-	-	
11	Other liabilities:	60,011	24,260	9,049	32,230	36,755	
12	Net derivative liabilities	-					
13	All other funding and liabilities not included in the above categories	60,011	24,260	9,049	32,230	36,755	
14	<b>Total ASF</b>					1,132,365	
<b>B. RSF item</b>							
15	Total HQLA for NSFR purposes	1	372,281			10,913	
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-	
17	Performing loans and securities:	39,134	281,838	112,021	565,454	588,854	
18	Performing loans to financial institutions secured by Level 1 HQLA	-	5,877	-	-	588	
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	26	90,849	975	5,791	19,932	
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	36,153	152,104	92,410	204,701	326,640	
21	With a risk-weight of less than or equal to 35% under the STC approach	37	1,811	46	1,679	2,044	
22	Performing residential mortgages, of which:	-	8,608	7,253	332,758	229,546	
23	With a risk-weight of less than or equal to 35% under the STC approach	-	6,513	6,455	306,143	205,477	
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	2,955	24,400	11,383	22,204	12,148	
25	Assets with matching interdependent liabilities	-	-	-	-	-	
26	Other assets:	86,167	4,641	-	1,045	77,165	
27	Physical traded commodities, including gold	6,411				5,449	
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	2,029				1,725	
29	Net derivative assets	89				89	
30	Total derivative liabilities before adjustments for deduction of variation margin posted	3,542				177	
31	All other assets not included in the above categories	74,096	4,641	-	1,045	69,725	
32	OBS items	1		551,315		5,905	
33	<b>Total RSF</b>					682,837	
34	<b>NSFR (%)</b>					165.8%	

1 The unweighted values disclosed in these rows are not required to be split by residual maturity.

## **BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

### **Other disclosures**

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#### **Interest rate exposures in the banking book**

Interest rate risk in the banking book ('IRRBB') is the potential adverse impact of changes in interest rates on earnings and capital. The component of IRRBB that can be economically neutralised in the market is transferred to Markets Treasury to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, the Group aims to balance the potential adverse effect of future interest rate movements on the net interest income against the cost of hedging. The monitoring of the projected net interest income ('NII') and economic value of equity ('EVE') sensitivity (' $\Delta$ ') under varying interest rate scenarios is a key part of this.

#### **Governance and structure**

Asset, Liability and Capital Management ('ALCM') monitors and controls IRRBB. This includes reviewing and challenging the global business prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM is also responsible for maintaining and updating the transfer pricing framework, informing the ALCO of the Group's overall banking book interest rate risk exposure and managing the balance sheet in conjunction with Markets Treasury.

The ALCO defines transfer pricing curve and reviews and approves the transfer pricing policy, including behavioural assumptions used for products where there is either no defined maturity or customer optionality exists.

The ALCO is also responsible for monitoring and reviewing each entity's overall structural interest rate risk position. Structural hedge demand is determined as per HSBC Group's Benchmark Structural Hedge methodology and is approved by ALCO at least annually. Banking book assets and liabilities are transferred to Markets Treasury based on their repricing and maturity characteristics.

Markets Treasury manages the banking book interest rate positions transferred to it within the Market Risk limits.

#### **Sensitivity of economic value of equity**

$\Delta$ EVE is the extent to which the EVE will change due to a pre-specified movement in interest rates (six interest rate shock scenarios prescribed by the HKMA), where all other economic variables are held constant. Variations in market interest rates can affect the economic value of assets, liabilities and OBS positions. The economic value of an instrument represents an assessment of the present value of its expected net cash flows, discounted to reflect market rates. The economic value perspective reflects this sensitivity. It provides a more comprehensive view of the potential long-term effects of changes in interest rates.

#### **Sensitivity of net interest income**

$\Delta$ NII is the sensitivity of expected net interest income under varying interest rate scenarios, where all other economic variables are held constant. The sensitivity of net interest income reflects the Group's sensitivity of earnings due to changes in market interest rates. Based on the reported interest rate repricing positions in the Interest Rate Risk Return, the impact on earnings is assessed over the next 12 months using the interest rate shock scenarios prescribed by the HKMA.

The  $\Delta$ EVE and  $\Delta$ NII shown in Table 56 are indicative and based on scenarios and assumptions prescribed by the HKMA under its completion instructions for the Return of Interest Rate Risk in the banking book - (MA(BS)12A), which is completed and reported quarterly on a consolidated basis.

Key modelling and parametric assumptions used in calculating  $\Delta$ EVE and  $\Delta$ NII in Table 56 include:

- i. for  $\Delta$ EVE, commercial margins and other spread components have been excluded from the cash flows used in the computation and discount rate used;
- ii. all the positions captured are assumed to run to maturity and slotted into the appropriate time bands based on risk transfer profile for material exposures and according to the earliest interest repricing date for the rest (as per MA(BS)12A) including for non-maturity deposits; and
- iii. no prepayment or early redemption risk from customer loans and deposits is assumed as majority of loans are on a floating basis and the average term for fixed rate deposits is one to three months, therefore the risk is immaterial.

The Group uses internal measurement system ('IMS') to generate  $\Delta$ EVE for internal assessment of capital adequacy which is different from the modelling assumptions prescribed for this disclosure, however, the cumulative impact on the quantification of economic value of equity sensitivity is small. This includes:

- i. structural hedge demand of non-maturity products, the extent of which can be driven by:
  - a. the amount of the current balance that can be assessed as stable under business-as-usual conditions; and
  - b. for managed rate balances the historic market interest rate re-pricing behaviour observed; or
  - c. for non-interest bearing balances the duration for which the balance is expected to remain under business-as-usual conditions. This assessment is often driven by the reinvestment tenors available to Markets Treasury to neutralise the risk through the use of fixed rate government bonds or interest rate derivatives, and for derivatives the availability of cash flow hedging capacity.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

- ii. internal measurements consider aggregated results of all currencies and not only material currencies as prescribed by the HKMA under its completion instruction for the Return of Interest Rate Risk in the banking book - (MA(BS)12A);
- iii. negative rate flooring is set at -1% for the overnight tenor to 0% for 20 year tenor unlike the modelling assumptions prescribed under this disclosure which is set at -2% for all currencies; and
- iv. economic value gains weighted 50% and losses weighted 100% under internal measurement unlike modelling assumptions for this disclosure where economic value gains are weighted at 0%.

The average and the longest repricing maturity assigned to NMDs on 31 December 2023 are 0.3 years and 5 years respectively which is determined by the actual risk transfer tenors subject to caps prescribed by the HKMA in the Supervisory Policy Manual for IRRBB (IR-1).

Table 56: IRRBB1 – Quantitative information on interest rate risk in banking book

	a	b	c	d
	ΔEVE		ΔNII	
	31 Dec 2023 HK\$m	31 Dec 2022* HK\$m	31 Dec 2023 HK\$m	31 Dec 2022* HK\$m
1 Parallel up	449	1,689	(1,774)	(23)
2 Parallel down	536	-	1,774	23
3 Steepener	258	-		
4 Flattener	218	896		
5 Short rate up	372	1,422		
6 Short rate down	494	-		
7 Maximum	536	1,689	1,774	23
Period	31 Dec 2023		31 Dec 2022	
8 Tier 1 capital	134,003		128,166	

\* Comparative data have been re-presented to align with the submission to the HKMA.

The worst scenario for the change in economic value of equity is the 'Parallel down' scenario with specific size of interest rate shock for each currency and the scenario with the most adverse impact of interest rate movements from an earnings perspective under the supervisory prescribed interest rate shock scenarios over the next twelve months is the 'Parallel down' scenario. The change in both economic value of equity and net interest income sensitivity are mainly attributable to a change in repricing maturity of NMD, previously modelled as repricing overnight.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Mainland activities exposures

The analysis of mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the BDR with reference to the HKMA's Return of Mainland Activities – (MA(BS)20). This includes the mainland activities exposures extended by the Bank's Hong Kong offices and its wholly owned banking subsidiary in mainland China.

Table 57: Mainland activities exposures

As at 31 Dec 2023	On-balance sheet exposure HK\$m	OBS exposure HK\$m	Total exposures HK\$m
<b>Type of Counterparties</b>			
1 Central government, central government-owned entities and their subsidiaries and joint ventures (JVs')	52,904	3,162	56,066
2 Local governments, local government-owned entities and their subsidiaries and JVs	22,918	1,392	24,310
3 People's Republic of China ('PRC') nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	83,831	12,071	95,902
4 Other entities of central government not reported in item 1 above	6,006	249	6,255
5 Other entities of local governments not reported in item 2 above	3,301	159	3,460
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19,552	583	20,135
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	6,994	84	7,078
<b>Total</b>	<b>195,506</b>	<b>17,700</b>	<b>213,206</b>
<b>Total assets after provision</b>	<b>1,524,138</b>		
<b>On-balance sheet exposures as percentage of total assets</b>	<b>12.83%</b>		

On-balance sheet exposures as percentage of total assets decreased from 14.21% at 30 June 2023 to 12.83% at 31 December 2023.

### International claims

The Group's country risk exposures in the table below are prepared in accordance with the HKMA 'Return of International Banking Statistics - (MA(BS)21)' guidelines on an accounting consolidation basis. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the Group's total international claims.

Table 58: International claims

As at 31 Dec 2023	Banks HK\$m	Official Sector HK\$m	Non Bank Financial Institution HK\$m	Non-Financial Private Sector HK\$m	Others HK\$m	Total HK\$m
Developed countries	42,105	121,440	39,974	71,254	-	274,773
<i>of which : United States</i>	<i>2,455</i>	<i>48,471</i>	<i>15,832</i>	<i>35,058</i>	<i>-</i>	<i>101,816</i>
Offshore centres	24,298	23,125	20,610	112,561	-	180,594
<i>of which : Hong Kong SAR</i>	<i>12,673</i>	<i>1,452</i>	<i>18,357</i>	<i>98,700</i>	<i>-</i>	<i>131,182</i>
Developing Asia and Pacific	58,945	16,630	6,694	49,423	-	131,692
<i>of which : Mainland China</i>	<i>46,038</i>	<i>16,565</i>	<i>5,809</i>	<i>44,873</i>	<i>-</i>	<i>113,285</i>

At 31 December 2023, only claims on Hong Kong SAR, Mainland China and United States were the individual countries and territories or areas, which were not less than 10% of the Group's total international claims.

## BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

### Foreign exchange exposures

#### Structural foreign exchange exposures

Structural foreign exchange exposures arise from net assets or capital investments in foreign operations together with any associated hedging. A foreign operation is defined as a subsidiary, branch, where the activities are conducted in a currency other than that of the reporting entity. An entity's functional reporting currency is normally that of the primary economic environment in which the entity operates.

Exchange differences on structural exposures are recognised in OCI. The Group uses HKD as our presentation currency in our consolidated financial statements. Therefore, our consolidated balance sheet is affected by exchange differences between HKD and all the non-HKD functional currencies of underlying foreign operations.

Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our consolidated capital ratios and the capital ratios of foreign operations subject to minimum regulatory capital requirements are largely protected from the effect of changes in exchange rates.

The Group's foreign exchange exposures in the tables below are prepared in accordance with the HKMA 'Return of Foreign Currency Position - (MA(BS)6)'.

The Group had the following net structural foreign currency exposures that were not less than 10% of total net structural foreign currency positions at 31 December 2023:

Table 59: Net structural foreign currency exposures

	Chinese renminbi ('RMB')	Macau patacas ('MOP')	Other foreign currencies	Total foreign currencies
As at 31 Dec 2023	HK\$m	HK\$m	HK\$m	HK\$m
<b>Net structural foreign currency exposures</b>	<b>15,584</b>	<b>1,773</b>	<b>59</b>	<b>17,416</b>

The Group had the following non-structural foreign currency positions that were not less than 10% of the net non-structural positions in all foreign currencies at 31 December 2023:

Table 60: Non-structural foreign currency positions

	US dollars ('USD')	Other foreign currencies	Total foreign currencies
As at 31 Dec 2023	HK\$m	HK\$m	HK\$m
<b>Non-structural position</b>			
Spot assets	230,025	288,040	518,065
Spot liabilities	(216,432)	(218,388)	(434,820)
Forward purchases	547,956	234,298	782,254
Forward sales	(557,253)	(305,009)	(862,262)
Net options position	(349)	551	202
<b>Net long/(short) non-structural position</b>	<b>3,947</b>	<b>(508)</b>	<b>3,439</b>

The net options position reported above are calculated using the delta-weighted positions of the options contracts.

A summary of the Group's current policies and practices for the management of foreign currency exposures is set out in page 90 of the Group's 2023 Annual Report\*.

\* Refers to printed version. The page reference of Annual Report (text version) is page 105.

## BANKING DISCLOSURE STATEMENT (unaudited) (continued)

### Other information

#### Abbreviations

A	
AI	Authorised institution
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
ASF	Available stable funding
AT1	Additional tier 1
AVAs	Additional valuation adjustments
B	
Bank	Hang Seng Bank Limited
BCBS	Basel Committee on Banking Supervision
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules
BSC	Basic approach
C	
CCF	Credit conversion factor
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CEM	Current exposure method
CET1	Common equity tier 1
CF	Commodities finance
CIS	Collective investment scheme
CRC	Comprehensive risk charge
CRCO	Chief Risk and Compliance Officer
CRM	Credit risk mitigation
CRR	Customer risk rating
CSA	Credit support annex
CVA	Credit valuation adjustment
D	
D-SIB	Domestic systemically important authorised institution
DTAs	Deferred tax assets
E	
EAD	Exposure at default
ECAI	External Credit Assessment Institution
ECL	Expected Credit Loss
EL	Expected loss
EPE	Expected positive exposure
EVE	Economic value of equity
F	
FBA	Fall-back approach
FIRO	Financial Institutions (Resolution) Ordinance
FSB	Financial Stability Board
G	
G-SIB	Global systemically important authorised institution
Group	Hang Seng Bank Limited together with its subsidiaries
H	
HK\$bn	Billions (thousands of millions) of Hong Kong dollars
HK\$m	Millions of Hong Kong dollars
HKD	Hong Kong dollar
HKMA	Hong Kong Monetary Authority
HKFRS	Hong Kong Financial Reporting Standards
Hong Kong SAR	The Hong Kong Special Administrative Region of the People's Republic of China
HSBC	HSBC Holdings together with its subsidiary undertakings
HQLA	High quality liquid assets
HVCRE	High-volatility commercial real estate

I	
IAA	Internal assessment approach
ILM	Internal Liquidity Metric
IMM	Internal models approach
IMM(CCR)	Internal models (counterparty credit risk) approach
IMS	Internal measurement system
IPRE	Income-producing real estate
IRB	Internal ratings-based approach
IRC	Incremental risk charge
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
J	
J	Jurisdiction
JVs	Joint ventures
L	
LAC	Loss-absorbing capacity
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules
LCR	Liquidity coverage ratio
LGD	Loss given default
LR	Leverage ratio
LTA	Look through approach
M	
MBA	Mandate-based approach
MOF	Model Oversight Forum
MOP	Macau Patacas
MRC	Model Risk Committee
MSRs	Mortgage servicing rights
N	
N/A	Not applicable
NBFI	Non-Bank Financial Institution
NTBFX	Non-trading book foreign exchange
NII	Net interest income
NMDs	Non-maturity deposit
NSFR	Net stable funding ratio
O	
OBS	Off-balance sheet
OF	Object finance
OCI	Other comprehensive income
OTC	Over-the-counter
P	
p.p.	Percentage point
PD	Probability of default
PF	Project finance
PFE	Potential future exposure
PiT	Point-in-Time
PMA	Post Model Adjustment
PRA	Prudential Regulation Authority
PRC	People's Republic of China
PSE	Public sector entity
PVA	Prudent valuation adjustment
Q	
QRRE	Qualifying revolving retail exposures
R	
RAS	Risk Appetite Statement
RC	Replacement cost
RMB	Chinese Renminbi
RMM	Risk Management Meeting
RNIV	Risk not in VaR
RSF	Required stable funding
RW	Risk-weight
RWA	Risk-weighted asset/risk-weighted amount

**BANKING DISCLOSURE STATEMENT** *(unaudited) (continued)*

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S	
S&P	Standard and Poor's Ratings Services
SA-CCR	Standardised approach for counterparty credit risk
SEC-ERBA	Securitisation external ratings-based approach
SEC-FBA	Securitisation fall-back approach
SEC-IRBA	Securitisation internal ratings-based approach
SEC-SA	Securitisation standardised approach
SFT	Securities financing transaction
SME	Small and medium-sized enterprises
SRW	Supervisory risk-weight
STC	Standardised (credit risk) approach
STO	standardised (operational risk) approach
STM	Standardised (market risk) approach
SVaR	Stressed VaR
T	
T1	Tier 1
T2	Tier 2
TALCO	Tactical Asset and Liability Management Committee
TC	Total regulatory capital
TLAC	Total loss-absorbing capacity
TTC	Through-The-Cycle
U	
USD	US dollar
V	
VaR	Value at risk
W	
WPB	Wealth and Personal Banking

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