

# **Banco Santander, S.A. Hong Kong Branch**

## **Financial Report 2016**

**January - December**

**BANCO SANTANDER, S.A.  
HONG KONG BRANCH**

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**BANCO SANTANDER, S.A.**  
**HONG KONG BRANCH**  
**Financial Report as at 31 December 2016**

**Unaudited Income Statement**

*(for 12 months ended 31 December)*

	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
	HK\$'000	HK\$'000
Interest Income	503,874	634,492
Interest Expense	(353,287)	(200,821)
Other operating income:		
- Gains less losses arising from trading in foreign currencies	110,222	(139,262)
- Gains less losses on securities held for trading purposes	0	0
- Gains less losses from other trading activities	(11,356)	3,170
- Net fees and commission income	84,272	176,017
- Others	14,967	15,632
<b>Total Income</b>	<b>348,692</b>	<b>489,228</b>
Operating expenses		
- Staff expenses	(363,599)	(295,727)
- Rental expenses	(34,916)	(33,575)
- Charge for impairment allowances for loans and other exposures	(9,950)	0
- Other expenses	(91,956)	(95,217)
Gains less losses from the disposal of property, plant and equipment and investment properties	95	148
<b>Total Expenses</b>	<b>(500,326)</b>	<b>(424,371)</b>
Profit / (Loss) before taxation	(151,634)	64,857
Tax expenses	(8,111)	(36,239)
<b>Profit / (Loss) after taxation</b>	<b>(159,745)</b>	<b>28,618</b>

**Unaudited Balance Sheet**

	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	HK\$'000	HK\$'000
<b>ASSETS</b>		
Cash and balances with banks (except those included in amount due from overseas offices of the institution)	520,217	659,675
Due from Exchange Fund	419,788	71,416
Placement with banks which have a residual contractual maturity of more than one month but not more than 12 months (except those included in amount due from overseas offices of the institution)	1,038,113	1,148,454
Amount due from overseas offices of the institution	8,266,332	13,685,032
Trade Bills	1,848,770	1,523,600
Advances and other accounts		
- loans and advances to customers	15,726,472	15,805,976
- loans and advances to banks	436,450	462,443
- accrued interest and other accounts	2,022,715	1,359,156
- collective impairment allowances for loans and other exposures	(9,950)	0
Investment securities	8,546,530	9,300,479
Property, plant and equipment and investment properties	10,884	15,365
<b>TOTAL ASSETS</b>	<b>38,826,321</b>	<b>44,031,596</b>
<b>LIABILITIES</b>		
Deposits and balances from banks (except those included in amount due to overseas offices of the institution)	19,298,034	34,246,309
Due to Exchange Fund	0	0
Deposits from customers		
- demand deposits and current accounts	9,650	23,086
- savings deposits	294,430	769,440
- time, call and notice deposits	2,156,110	1,006,027
Amount due to overseas offices of the institution	8,894,138	5,413,005
Accrued interest, other liabilities and provisions	8,173,959	2,573,729
<b>TOTAL LIABILITIES</b>	<b>38,826,321</b>	<b>44,031,596</b>

**Unaudited Supplementary Information**

	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
	HK\$'000	HK\$'000
1. Breakdown of fees and commission income from January to December:		
- Gross fees and commission income	98,746	188,916
- Gross fees and commission expenses	(14,474)	(12,899)
	<u>84,272</u>	<u>176,017</u>
Net fees and commission income	<u>84,272</u>	<u>176,017</u>

**2. Collective impairment allowances**

Starting from the year ended 31 December 2016, the collective impairment allowances are allocated to and maintained in the book of Banco Santander S.A. Hong Kong Branch. The collective impairment allowances provided for 31 December 2016 is HK\$9,950,000. As at 30 June 2016, the collective impairment allowances provided and maintained at Head Office is HK\$30,264,000.

No individual impairment allowances for loans and other exposures is provided for the year ended 31 December 2016 and 30 June 2016 respectively.

**3. Impaired Loans and Advances**

- Amount of impaired loans and advances to customers which are individually determined to be impaired	0	0
- Amount of specific provisions made for such loans and advances	0	0
- Value of collateral which has been taken into account in respect of such loans and advances to which the specific provisions relate	0	0
- Percentage of such loans and advances to total amount of loans and advances to customers	0.00%	0.00%

There were no impaired advances to banks and other financial institutions as at 31 December 2016 and 30 June 2016; nor were there any impairment allowances made for them on these dates.

**Unaudited Supplementary Information (Continued)**

	<b>31 Dec 2016</b> HK\$'000	<b>30 Jun 2016</b> HK\$'000
4. Derivative transactions		
- Exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements)	103,647,787	97,996,860
- Interest rate derivative contracts	59,495,924	50,619,396
<u>Fair value:</u>		
1. Derivative assets		
- Exchange rate contracts (include interbranch)	1,766,518	897,896
- Interest rate derivative contracts	187,019	302,725
2. Derivative liabilities		
- Exchange rate contracts (include interbranch)	1,645,543	800,961
- Interest rate derivative contracts	192,103	298,988

*The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs, as none of these contracts are subject to any bilateral netting arrangements.*

**Off-balance sheet exposures (notional amounts)**

	<b>31 Dec 2016</b> HK\$'000	<b>30 Jun 2016</b> HK\$'000
Direct credit substitutes	479,124	330,060
Transaction-related contingencies	630,293	789,014
Trade-related contingencies	862,798	396,968
Forward forward deposits placed	0	1,209,313
Other commitments	22,758,381	27,817,040

## Unaudited Supplementary Information (Continued)

### General disclosures

Analysis of gross amount of loans and advances to customers by major countries or geographical segments in accordance with the location of the counterparties after adjusting transfer of risk as defined by the Hong Kong Monetary Authority.

	31 Dec 2016		30 Jun 2016	
	HK\$'000	% to total advances to customers	HK\$'000	% to total advances to customers
<b>Gross amount of advances:</b>				
- Hong Kong	10,229,062	65.04%	8,809,005	55.73%
- China	2,173,136	13.82%	3,309,153	20.94%
- Taiwan	1,551,105	9.86%	1,551,702	9.82%
- Australia	1,116,382	7.10%	1,020,980	6.46%
- Spain	0	0%	737,059	4.66%
- Others	656,787	4.18%	378,077	2.39%
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	15,726,472	100.00%	15,805,976	100.00%
 The related overdue loans:	 0		 0	
The related impaired loans:	0		0	

### Unaudited Supplementary Information (Continued)

Breakdown of international claims refer to exposures to counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognized risk transfer. Only countries constituting 10% or more of our total international claims are disclosed after taking into account any recognized risk transfer.

HKD million	Banks	Official sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
<b>As at 31 December 2016</b>						
Developed countries	8,805	1,549	0	1,117	0	11,471
<i>Of which: Spain</i>	8,302	0	0	0	0	8,302
<i>United States</i>	125	1,549	0	0	0	1,674
Offshore centres	706	0	3,916	6,570	0	11,192
<i>Of which: Hong Kong</i>	688	0	3,916	6,315	0	10,919
Developing Asia and Pacific	2,266	0	1,551	2,179	0	5,996
<i>Of which: China</i>	2,266	0	0	2,179	0	4,445
<i>Taiwan</i>	0	0	1,551	0	0	1,551
<b>As at 30 June 2016</b>						
Developed countries	14,245	5,501	0	1,760	0	21,506
<i>Of which: Spain</i>	13,751	0	0	738	0	14,489
<i>United States</i>	326	5,501	0	0	0	5,827
Offshore centres	1,592	0	0	6,515	0	8,107
<i>Of which: Hong Kong</i>	1,505	0	0	6,515	0	8,020
Developing Asia and Pacific	1,567	0	1,552	3,267	0	6,386
<i>Of which: China</i>	1,371	0	0	3,243	0	4,614
<i>Taiwan</i>	0	0	1,552	0	0	1,552



## Unaudited Supplementary Information (Continued)

### Sector Information

Analysis of gross advances to customers and the percentage of secured advances classified into following industry categories:

	31 Dec 2016		30 Jun 2016	
	HK\$'000	Collateral or Other security (%)	HK\$'000	Collateral or Other security (%)
<b>Loans and advances for use in HK</b>				
Industrial, commercial & financial:				
- Property development	0	0.00	1,017,777	0.00
- Electricity and gas	4,653,316	0.00	4,655,107	0.00
- Civil engineering works	5,277	0.00	0	0.00
- Wholesale and retail trade	0	0.00	23,276	0.00
- Others	1,793,853	0.00	3,192,508	0.00
- Subtotal	6,452,446		8,888,668	
<b>Trade Finance</b>	1,187,228	0.00	632,046	0.00
<b>Loans and advances for use outside HK</b>	8,086,798	0.00	6,285,262	0.00
<b>TOTAL:</b>	<b>15,726,472</b>	<b>0.00</b>	<b>15,805,976</b>	<b>0.00</b>

## Unaudited Supplementary Information (Continued)

### Overdue or rescheduled advances

#### Overdue advances to customers:

	HK\$'000	31 Dec 2016 % to total advances to customers	HK\$'000	30 Jun 2016 % to total advances to customers
Analysis of overdue advances to customers				
- 6 months or less but more than 3 months	0	0.00%	0	0.00%
- 1 year or less but more than 6 months	0	0.00%	0	0.00%
- more than 1 year	0	0.00%	0	0.00%
Rescheduled advances to customers	0	0.00%	0	0.00%

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2016 and 30 June 2016; nor were there any rescheduled advances to banks and other financial institutions on these dates.

#### Other overdue assets:

There were no significant impaired, overdue or rescheduled other assets as at 31 December 2016 and 30 June 2016.

#### Repossessed assets:

There were no repossessed assets held as at 31 December 2016 and 30 June 2016.

### Unaudited Supplementary Information (Continued)

#### Non-bank Mainland exposures

The following Mainland exposures to non-bank counterparties are prepared in accordance with the HKMA Return of Mainland Activities completion instructions.

As at 31 Dec 2016 (HKD million)

Type of counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	10,861	1,114	11,975
2. Local governments, local government-owned entities and their subsidiaries and JVs	0	0	0
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,168	425	1,593
4. Other entities of central government not reported in item 1 above	387	0	387
5. Other entities of local governments not reported in item 2 above	0	0	0
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	0	0	0
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	0	0	0
<b>Total</b>	<b>12,416</b>	<b>1,539</b>	<b>13,955</b>
Total assets after provision	38,826		
On-balance sheet exposures as percentage of total assets	31.98%		

**Unaudited Supplementary Information (Continued)**
**As at 30 Jun 2016 (HKD million)**

<b>Type of counterparties</b>	<b>On-balance sheet exposure</b>	<b>Off-balance sheet exposure</b>	<b>Total</b>
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	10,621	416	11,037
2. Local governments, local government-owned entities and their subsidiaries and JVs	0	0	0
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	897	198	1,095
4. Other entities of central government not reported in item 1 above	78	0	78
5. Other entities of local governments not reported in item 2 above	0	0	0
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	0	0	0
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	0	0	0
<b>Total</b>	<b>11,596</b>	<b>614</b>	<b>12,210</b>
<b>Total assets after provision</b>	<b>44,032</b>		
<b>On-balance sheet exposures as percentage of total assets</b>	<b>26.33%</b>		

## Unaudited Supplementary Information (Continued)

### Currency Risk

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

#### As at 31 Dec 2016 (HKD million)

	<u>AUD</u>	<u>USD</u>	<u>CNY</u>	<u>Others</u>	<u>Total</u>
Spot Assets	521	21,068	52	9,716	31,357
Spot Liabilities	(50)	(23,635)	(1,855)	(8,276)	(33,816)
Forward purchases	480	48,789	20,922	25,870	96,061
Forward sales	(961)	(46,146)	(19,174)	(27,303)	(93,584)
Net option position	0	0	0	0	0
Net long (short) position	(10)	76	(55)	7	18

#### As at 30 Jun 2016 (HKD million)

	<u>AUD</u>	<u>USD</u>	<u>CNY</u>	<u>Others</u>	<u>Total</u>
Spot Assets	2,143	23,137	1,566	10,957	37,803
Spot Liabilities	(121)	(38,694)	(778)	(4,429)	(44,022)
Forward purchases	4,646	53,116	22,638	10,526	90,926
Forward sales	(6,679)	(37,486)	(23,442)	(17,058)	(84,665)
Net option position	0	0	0	0	0
Net long (short) position	(11)	73	(16)	(4)	42

Delta-weighted position method is used to calculate net option position of the Branch.

### Liquidity Information Disclosures

	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Average liquidity maintenance ratio for the financial period of January to December	41.79%	35.71%

The average liquidity maintenance ratio is the simple average of each month's average liquidity maintenance ratio for the reporting period. Liquidity maintenance ratio is calculated in accordance with the guidelines of the HKMA and the Banking (Liquidity) Rules.

## Unaudited Supplementary Information (Continued)

### Liquidity Risk Management

Liquidity risk comprises the risk of the Hong Kong Branch (The Branch) not being able to fund increases in its assets or meet obligations as they fall due without incurring unacceptable losses. Liquidity risk identification, measurement, monitoring and control for the Branch are commensurate with the limited scope of our business and its role as the funding center in Asia-Pacific.

Risk Management Policies and the Risk tolerance is set at the Head Office level. This risk tolerance is transmitted to the Branch level by the setting of individual branch liquidity gap measures and controls.

### *Governance*

The Santander approach to risk management is committee based for all decisions. The Branch has an Asset-Liability Committee (ALCO), responsible for the management of assets, liabilities, commitments and contingent liabilities of the Branch. Its role is to ensure that the management of the risk profile and liquidity profile of the branch is carried on within the approved limits and policies. The support units assigned with to identify, measure and monitor risks are independent of the business origination functions. Asia Pacific Market & Structural Risk is responsible for the measurement and monitoring of liquidity risks. Accounting and Control area is responsible for the calculation of the liquidity maintenance ratios and provides all the relevant data on Balance Sheet in order to closely monitor the daily liquidity situations.

### *Liquidity metrics reporting*

Daily monitoring of liquidity maintenance ratio (LMR) and LMR projections are done by the Accounting and Control area. In addition, Asia Pacific Market & Structural Risk team prepares daily and monthly liquidity monitoring reports including liquidity gap, liquidity stress testing, etc. which are submitted for review in ALCO.

### *Stress testing*

Monthly stress tests are carried out in order to identify sources of potential liquidity strain, monitor liquidity exposures and assess impact of future liquidity stresses on the branch cash flows, liquidity position, profitability and solvency. These scenarios cover institution-specific, market-wide stress scenarios and a combination of both. The design of the stress test is adequate to the branch business scope and funding structure and will be reviewed on a yearly basis to ensure its effectiveness.

### *Funding and market access*

The aim is to maintain a self-funding posture to the greatest extent possible. However, as a full branch of Banco Santander, the head office is always ready as a source of funding for the Branch in times of stress. The Branch treasury actively pursues funding from different market sources. The Branch Management and the ALCO are responsible to ensure that funding concentrations are managed to a minimum with the constraints of the business model.

### *Maintenance of liquidity cushion*

The composition of the Branch's liquidity cushion will be high quality marketable securities issued or guaranteed by sovereigns. This composition should consist of an appropriate mix of eligible assets as far as practicable and necessary based on the balance sheet mix of the Branch. Currently the Branch holds Hong Kong Exchange Fund Bills (HKD) and U.S. Treasury Bills for these purposes.

**Unaudited Supplementary Information (Continued)*****Contingency Funding Plan (CFP)***

The Branch maintains a framework to monitor and respond to potential liquidity problems. The objective is to define a series of liquidity risk triggers, critical events and the appropriate response by the Branch to these warnings. The CFP prescribes possible courses of action designed to address any existing problems and prepare the branch for additional funding pressures should they develop. The CFP will be reviewed on at least an annual basis by ALCO.

**Disclosure on Remuneration**

Pursuant to section 3 of Supervisory Policy Manual (CG-5) Guideline on a Sound Remuneration System issued by the HKMA, Banco Santander, S.A. Hong Kong Branch complies with the requirements and has adopted the remuneration systems of Banco Santander, S.A. Head Office. Please refer to 2016 annual report of Banco Santander, S.A. for details.

**BANCO SANTANDER, S.A.**  
**(Including Hong Kong Branch)**  
**Financial Report as at 31 December 2016**

(based on Banco Santander, S.A. financial report for the period ended 31 December 2016)

**CAPITAL AND CAPITAL ADEQUACY**

	<b>31 Dec 2016</b> EUR Million	<b>30 Jun 2016</b> EUR Million
Total shareholders' equity	102,699	100,346
Capital adequacy ratio	14.68%	14.36%

As regards capital ratios, Group Santander's eligible shareholders' equity was determined in accordance with the criteria of the Bank for International Settlements.

**OTHER FINANCIAL INFORMATION**

	<b>31 Dec 2016</b> EUR Million	<b>30 Jun 2016</b> EUR Million
Total assets	1,339,125	1,342,906
Total liabilities	1,236,426	1,242,560
Total advances to customers	790,470	783,456
Total customer deposits	691,111	671,903

  

	<b>31 Dec 2016</b> EUR Million	<b>31 Dec 2015</b> EUR Million
Pre-tax profit <i>(for 12 months ended 31 Dec)</i>	11,288	10,939

**Statement by Chief Executive**

This Disclosure Statement has been prepared in accordance with the Banking (Disclosure) Rules and the disclosure standards as stated in the Hong Kong Monetary Authority's Supervisory Policy Manual on "Guideline on the Application of the Banking (Disclosure) Rules". To the best of my knowledge, the disclosure is not false or misleading in any material respect.



Derek Gibson  
 Chief Executive  
 Banco Santander, S.A. Hong Kong Branch