

Banco Santander, S.A. Hong Kong Branch

Financial Report 2017

January - June

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

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BANCO SANTANDER, S.A.
HONG KONG BRANCH
Financial Report as at 30 June 2017

Unaudited Income Statement

(for 6 months ended 30 June)

	30 Jun 2017	30 Jun 2016
	HK\$'000	HK\$'000
Interest Income	252,486	280,066
Interest Expense	(209,702)	(196,656)
Other operating income:		
- Gains less losses arising from trading in foreign currencies	152,107	46,234
- Gains less losses on securities held for trading purposes	0	0
- Gains less losses from other trading activities	(4,050)	(12,304)
- Net fees and commission income	34,684	32,977
- Others	6,956	7,938
Total Income	232,481	158,255
Operating expenses		
- Staff expenses	(162,502)	(171,909)
- Rental expenses	(15,624)	(17,208)
- Charge for impairment allowances for loans and other exposures	(544)	0
- Other expenses	(35,754)	(45,262)
Gains less losses from the disposal of property, plant and equipment and investment properties	40	95
Total Expenses	(214,384)	(234,284)
Profit / (Loss) before taxation	18,097	(76,029)
Tax expenses	(16,631)	(1,946)
Profit / (Loss) after taxation	1,466	(77,975)

Unaudited Balance Sheet

	30 Jun 2017	31 Dec 2016
	HK\$'000	HK\$'000
ASSETS		
Cash and balances with banks (except those included in amount due from overseas offices of the institution)	618,800	520,217
Due from Exchange Fund	1,223,043	419,788
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)	1,938,742	1,038,113
Amount due from overseas offices of the institution	6,779,723	8,266,332
Trade Bills	3,037,164	1,848,770
Advances and other accounts		
- loans and advances to customers	20,477,082	15,726,472
- loans and advances to banks	5,057	436,450
- accrued interest and other accounts	1,818,569	2,022,715
- collective impairment allowances for loans and other exposures	(10,662)	(9,950)
Investment securities	5,898,964	8,546,530
Property, plant and equipment and investment properties	8,925	10,884
TOTAL ASSETS	41,795,407	38,826,321
LIABILITIES		
Deposits and balances from banks (except those included in amount due to overseas offices of the institution)	17,958,440	19,298,034
Due to Exchange Fund	11,000,000	0
Deposits from customers		
- demand deposits and current accounts	9,757	9,650
- savings deposits	226,531	294,430
- time, call and notice deposits	549,581	2,156,110
Amount due to overseas offices of the institution	4,905,277	8,894,138
Certificates of deposit issued	237,167	0
Accrued interest, other liabilities and provisions	6,872,654	8,173,959
TOTAL LIABILITIES	41,795,407	38,826,321

Unaudited Supplementary Information

	30 Jun 2017	30 Jun 2016
	HK\$'000	HK\$'000
1. Breakdown of fees and commission income from January to June:		
- Gross fees and commission income	40,063	40,547
- Gross fees and commission expenses	(5,379)	(7,570)
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Net fees and commission income	<u>34,684</u>	<u>32,977</u>
	<hr/> <hr/>	<hr/> <hr/>
2. Collective impairment allowances		
<p>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 30 June 2017 is HK\$10,662,000. As at 31 December 2016, the collective impairment allowances provided is HK\$9,950,000.</p> <p>There were no provisions for individual impairment allowances for loans and other exposures as at 30 June 2017 and 31 December 2016.</p>		
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 30 June 2017 and 31 December 2016; nor were there any impairment allowances made for them on these dates.

Unaudited Supplementary Information (Continued)

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
4. Derivative transactions		
- Exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements)	108,946,293	103,647,787
- Interest rate derivative contracts	64,216,232	59,495,924
<u>Fair value:</u>		
1. Derivative assets		
- Exchange rate contracts (include interbranch)	1,573,081	1,766,518
- Interest rate derivative contracts	170,184	187,019
2. Derivative liabilities		
- Exchange rate contracts (include interbranch)	1,534,343	1,645,543
- Interest rate derivative contracts	156,752	192,103

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)

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Direct credit substitutes	519,449	479,124
Transaction-related contingencies	677,372	630,293
Trade-related contingencies	1,433	862,798
Forward forward deposits placed	0	0
Other commitments	25,507,613	22,758,381

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.

	30 Jun 2017		31 Dec 2016	
	HK\$'000	% to total advances to customers	HK\$'000	% to total advances to customers
Gross amount of advances:				
- Hong Kong	8,520,707	41.61%	10,229,062	65.04%
- China	7,861,917	38.39%	2,173,136	13.82%
- Taiwan	1,560,953	7.62%	1,551,105	9.86%
- Australia	1,114,447	5.44%	1,116,382	7.10%
- Cayman	892,336	4.36%	277,954	1.77%
- Others	526,722	2.58%	378,833	2.41%
	20,477,082	100.00%	15,726,472	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		
As at 30 Jun 2017						
Developed countries	7,066	0	0	1,149	0	8,215
<i>Of which: Spain</i>	6,837	0	0	0	0	6,837
<i>Australia</i>	0	0	0	1,115	0	1,115
<i>United States</i>	199	0	0	0	0	199
Offshore centres	685	0	0	7,572	0	8,257
<i>Of which: Hong Kong</i>	633	0	0	6,759	0	7,392
Developing Asia and Pacific	4,316	0	3,977	5,464	0	13,757
<i>Of which: China</i>	4,290	0	2,416	5,464	0	12,170
<i>Taiwan</i>	0	0	1,561	0	0	1,561
As at 31 December 2016						
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

Unaudited Supplementary Information (Continued)

Sector Information

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

	30 Jun 2017		31 Dec 2016	
	HK\$'000	Collateral or Other security (%)	HK\$'000	Collateral or Other security (%)
Loans and advances for use in HK				
Industrial, commercial & financial:				
- Property development	0	0.00	0	0.00
- Electricity and gas	4,682,860	0.00	4,653,316	0.00
- Civil engineering works	0	0.00	5,277	0.00
- Wholesale and retail trade	0	0.00	0	0.00
- Others	3,180,138	0.00	1,793,853	0.00
- Subtotal	7,862,998		6,452,446	
Trade Finance	2,785,493	0.00	1,187,228	0.00
Loans and advances for use outside HK	9,828,591	0.00	8,086,798	0.00
TOTAL:	20,477,082	0.00	15,726,472	0.00

Unaudited Supplementary Information (Continued)

Overdue or rescheduled advances

Overdue advances to customers:

	HK\$'000	30 Jun 2017 % to total advances to customers	HK\$'000	31 Dec 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 30 June 2017 and 31 December 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 30 June 2017 and 31 December 2016.

Reposessed assets:

There were no reposessed assets held as at 30 June 2017 and 31 December 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 30 Jun 2017 (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)	15,180	2,254	17,434
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	722	360	1,082
4. Other entities of central government not reported in item 1 above	117	0	117
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
Total	16,019	2,614	18,633
Total assets after provision	41,795		
On-balance sheet exposures as percentage of total assets	38.33%		

Unaudited Supplementary Information (Continued)

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
Total	12,416	1,539	13,955
Total assets after provision	38,826		
On-balance sheet exposures as percentage of total assets	31.98%		

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 30 Jun 2017 (HKD million)

	<u>EUR</u>	<u>AUD</u>	<u>USD</u>	<u>CNY</u>	<u>Others</u>	<u>Total</u>
Spot Assets	6,161	922	24,443	32	1,324	32,882
Spot Liabilities	(4,922)	(133)	(21,689)	(111)	(140)	(26,995)
Forward purchases	10,897	19	51,742	30,365	1,999	95,022
Forward sales	(12,095)	(817)	(54,184)	(30,290)	(3,180)	(100,566)
Net option position	0	0	0	0	0	0
Net long (short) position	41	(9)	312	(4)	3	343

As at 31 Dec 2016 (HKD million)

	<u>EUR</u>	<u>AUD</u>	<u>USD</u>	<u>CNY</u>	<u>Others</u>	<u>Total</u>
Spot Assets	9,137	521	21,068	52	579	31,357
Spot Liabilities	(8,222)	(50)	(23,635)	(1,855)	(54)	(33,816)
Forward purchases	11,768	480	48,789	20,922	14,102	96,061
Forward sales	(12,680)	(961)	(46,146)	(19,174)	(14,623)	(93,584)
Net option position	0	0	0	0	0	0
Net long (short) position	3	(10)	76	(55)	4	18

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

Liquidity Information Disclosures

	30 Jun 2017	30 Jun 2016
Average liquidity maintenance ratio for the financial period of January to June	43.39%	40.88%

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) 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 30 June 2017

(based on Banco Santander, S.A. financial report for the period ended 30 June 2017)

CAPITAL AND CAPITAL ADEQUACY

	30 Jun 2017	31 Dec 2016
	EUR Million	EUR Million
Total shareholders' equity	100,963	102,699
Capital adequacy ratio	14.90%	14.68%

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

	30 Jun 2017	31 Dec 2016
	EUR Million	EUR Million
Total assets	1,313,545	1,339,125
Total liabilities	1,212,582	1,236,426
Total advances to customers	778,632	790,470
Total customer deposits	699,522	691,111
	30 Jun 2017	30 Jun 2016
	EUR Million	EUR Million
Pre-tax profit <i>(for 6 months ended 30 Jun)</i>	6,569	5,212

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