

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

## **Interim Financial Report**

**For the six months ended 30 June 2018**

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

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**Unaudited Income Statement**
*(for 6 months ended 30 June)*

	Note	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Interest Income		473,072	252,486
Interest Expense		(500,015)	(209,702)
Other operating income			
- Gains less losses arising from trading in foreign currencies		204,826	152,107
- Gains less losses from other trading activities		16,099	(4,050)
- Net fees and commission income	1	47,235	34,684
- Others		6,892	6,956
<b>Total Operating income</b>		<b>248,109</b>	<b>232,481</b>
Operating expenses			
- Staff expenses		(177,073)	(162,502)
- Rental expenses		(18,447)	(15,624)
- Other expenses		(49,705)	(35,754)
Charge of impairment allowances for loans and other exposures		(5,268)	(544)
Gains less losses from the disposal of property, plant and equipment		-	40
<b>Total Operating expenses</b>		<b>(250,493)</b>	<b>(214,384)</b>
(Loss) / Profit before taxation		(2,384)	18,097
Tax expenses		(16,012)	(16,631)
<b>(Loss) / Profit after taxation</b>		<b>(18,396)</b>	<b>1,466</b>

**Unaudited Balance Sheet**

	Note	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
<b>ASSETS</b>			
Cash and balances with banks (except those included in amount due from overseas offices)		1,131,623	1,455,778
Due from Exchange Fund		13,694	526,374
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)		10,438,914	8,775,331
Amount due from overseas offices		24,529,549	16,579,656
Trade Bills		2,636,762	2,879,417
Loans and receivables	2	13,618,625	17,679,889
Investment securities		8,784,348	9,075,031
Property, plant and equipment		7,068	6,776
<b>TOTAL ASSETS</b>		<b>61,160,583</b>	<b>56,978,252</b>
<b>LIABILITIES</b>			
Deposits and balances from banks (except those included in amount due to overseas offices)		31,147,055	28,730,082
Due to Exchange Fund		5,994,300	2,000,000
Deposits from customers			
- demand deposits and current accounts		9,701	19,934
- savings deposits		385,861	253,791
- time, call and notice deposits		81,391	168,013
Amount due to overseas offices		18,130,043	19,216,466
Certificates of deposit issued		1,149,431	-
Accrued interest, other liabilities and provisions		4,262,801	6,589,966
<b>TOTAL LIABILITIES</b>		<b>61,160,583</b>	<b>56,978,252</b>

## Unaudited Supplementary Information

### 1. Net fees and commission income

	<b>6 months ended 30 Jun 2018</b>	<b>6 months ended 30 Jun 2017</b>
	HK\$'000	HK\$'000
Gross fees and commission income	60,402	40,063
Gross fees and commission expenses	(13,167)	(5,379)
	<hr/>	<hr/>
Net fees and commission income	<u>47,235</u>	<u>34,684</u>

### 2. Loans and receivables

	<b>30 Jun 2018</b>	<b>31 Dec 2017</b>
	HK\$'000	HK\$'000
Loans and advances to customers (note 8)	10,391,394	14,386,372
Accrued interest and other accounts	3,238,683	3,299,959
	<hr/>	<hr/>
	13,630,077	17,686,331
Impairment Allowances		
- Stage 1	(11,452)	-
- Collective impairment	-	(6,442)
	<hr/>	<hr/>
	<u>13,618,625</u>	<u>17,679,889</u>

### 3. Impaired Loans and Advances

There were no impaired loans and advances to customers or banks as at 30 June 2018 and 31 December 2017.

### 4. Derivative transactions

	<b>30 Jun 2018</b>	<b>31 Dec 2017</b>
	HK\$'000	HK\$'000
Nominal amounts		
- Exchange rate-related derivative contracts	220,531,740	149,436,010
- Interest rate derivative contracts	51,485,245	45,879,204

## Unaudited Supplementary Information (Continued)

### 4. Derivative transactions (continued)

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Fair value assets		
- Exchange rate-related derivative contracts	2,901,493	2,361,662
- Interest rate derivative contracts	174,234	165,009
Fair value liabilities		
- Exchange rate-related derivative contracts	2,629,243	2,333,139
- Interest rate derivative contracts	194,065	172,380

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs. There is no bilateral netting arrangements for these derivative contracts.

### 5. Off-balance sheet exposures

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Contractual amounts		
- Direct credit substitutes	982,976	600,612
- Transaction-related contingencies	944,984	827,395
- Trade-related contingencies	354,219	14,075
- Other commitments	31,397,125	30,123,636
- Others (forward forward deposits placed)	6,585,696	-

### 6. International claims

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 as follows:

HK\$ million	Banks	Official sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
<b>As at 30 Jun 2018</b>						
Developed countries	26,290	6,788	-	1,206	-	34,284
<i>Of which: Spain</i>	24,584	-	-	-	-	24,584
<i>    Japan</i>	788	6,788	-	-	-	7,576
Developing Asia and Pacific	11,575	-	1,216	2,321	-	15,112
<i>Of which: China</i>	11,575	-	1,216	2,321	-	15,112

## Unaudited Supplementary Information (Continued)

### 6. International claims (continued)

HK\$ million	Banks	Official sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
<b>As at 31 Dec 2017</b>						
Developed countries	16,839	5,077	-	1,087	-	23,003
<i>Of which: Spain</i>	16,623	-	-	-	-	16,623
<i>    Japan</i>	-	5,077	-	-	-	5,077
Offshore centres	1,081	-	4,849	2,268	-	8,198
<i>Of which: Hong Kong</i>	1,081	-	4,849	2,268	-	8,198
Developing Asia and Pacific	11,393	-	1,044	3,576	-	16,013
<i>Of which: China</i>	11,393	-	1,044	3,576	-	16,013

### 7. Gross loans and advances to customers by geographical areas

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 taking into account any recognized risk transfer. In general, risk transfer applies when the loans and advances are guaranteed by a party in a country which is different from that of the customer. Major countries constituting 10% or more of our total gross amount of advances are disclosed as follows:

	30 Jun 2018		31 Dec 2017	
	HK\$'000	% to total advances to customers	HK\$'000	% to total advances to customers
Gross amount of advances				
- Hong Kong	4,504,894	43.35%	7,124,198	49.52%
- China	3,521,012	33.88%	4,597,456	31.96%
- Australia	1,075,072	10.35%	1,086,414	7.55%
- Others	1,290,416	12.42%	1,578,304	10.97%
	<u>10,391,394</u>	<u>100.00%</u>	<u>14,386,372</u>	<u>100.00%</u>
Overdue or impaired loans	-		-	

## Unaudited Supplementary Information (Continued)

### 8. Sector information

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

	30 Jun 2018		31 Dec 2017	
	HK\$'000	% of gross advances covered by collateral or other security	HK\$'000	% of gross advances covered by collateral or other security
Loans and advances for use in Hong Kong				
- Industrial, commercial & financial				
- Wholesale and retail trade	750,000	-	171,919	-
- Manufacturing	721,827	-	-	-
- Others	1,059,636	-	1,575,861	-
	<u>2,531,463</u>		<u>1,747,780</u>	
Trade Finance	563,674	-	468,204	-
Loans and advances for use outside Hong Kong	<u>7,296,257</u>	-	<u>12,170,388</u>	-
Gross loans and advances to customers (note 2)	<u><u>10,391,394</u></u>		<u><u>14,386,372</u></u>	

### 9. Overdue or rescheduled assets

As at 30 June 2018 and 31 December 2017, there were no loans and advances to customers or other assets which were overdue for more than three months, nor were there any rescheduled assets.

### 10. Repossessed assets

There were no repossessed assets held as at 30 June 2018 and 31 December 2017.



## Unaudited Supplementary Information (Continued)

### 11. Non-bank Mainland exposures

The following Mainland exposures to non-bank counterparties are prepared in accordance with the completion instructions for Return of Mainland Activities issued by the Hong Kong Monetary Authority (“HKMA”).

Types of Counterparties	On-balance sheet exposure HK\$ million	Off-balance sheet exposure HK\$ million	Total HK\$ million
<b>As at 30 Jun 2018</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	6,240	3,112	9,352
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	144	390	534
4. Other entities of central government not reported in item 1 above	1,103	-	1,103
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
<b>Total</b>	<b>7,487</b>	<b>3,502</b>	<b>10,989</b>
<b>Total assets after provision</b>	<b>61,160</b>		
<b>On-balance sheet exposures as percentage of total assets</b>	<b>12.24%</b>		

## Unaudited Supplementary Information (Continued)

### 11. Non-bank Mainland exposures (continued)

Types of Counterparties	On-balance sheet exposure HK\$ million	Off-balance sheet exposure HK\$ million	Total HK\$ million
<b>As at 31 Dec 2017</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	10,194	2,732	12,296
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	852	459	1,311
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
<b>Total</b>	<b>11,046</b>	<b>3,191</b>	<b>14,237</b>
<b>Total assets after provision</b>	<b>56,978</b>		
<b>On-balance sheet exposures as percentage of total assets</b>	<b>19.39%</b>		

## Unaudited Supplementary Information (Continued)

### 12. 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.

HK\$ million

As at 30 Jun 2018

	JPY	EUR	AUD	USD	CNY	Others	Total
Spot Assets	6,829	22,814	564	25,977	555	1,648	58,387
Spot Liabilities	-	(4,972)	(71)	(55,792)	(179)	(127)	(61,141)
Forward purchases	5,119	32,595	377	123,631	44,199	2,958	208,879
Forward sales	(11,977)	(50,424)	(878)	(93,800)	(44,411)	(4,467)	(205,957)
Net option position	-	-	-	-	-	-	-
Net long (short) position	(29)	13	(8)	16	164	12	168
Net structural position	-	-	-	-	-	-	-

As at 31 Dec 2017

	JPY	EUR	AUD	USD	CNY	Others	Total
Spot Assets	5,117	16,828	842	28,001	184	1,458	52,430
Spot Liabilities	-	(7,029)	(23)	(44,935)	(522)	(464)	(52,973)
Forward purchases	5,884	18,284	587	79,598	39,777	1,821	145,951
Forward sales	(11,011)	(28,075)	(1,419)	(62,648)	(39,442)	(2,811)	(145,406)
Net option position	-	-	-	-	-	-	-
Net long (short) position	(10)	8	(13)	16	(3)	4	2
Net structural position	-	-	-	-	-	-	-

Delta equivalent approach method is used to calculate net options position of the Branch.

### 13. Liquidity information disclosures

	3 months ended 30 Jun 2018	3 months ended 31 Mar 2018	6 months ended 30 Jun 2017
Average liquidity maintenance ratio for the financial period	42.35%	37.28%	43.39%

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.

The liquidity information disclosure is also available under section "Shareholders and Investors" on Banco Santander S.A.'s website at [www.santander.com](http://www.santander.com).

## 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 the 2017 Annual Report of Banco Santander, S.A. for details.

## Group consolidated financial information

### Capital and capital adequacy

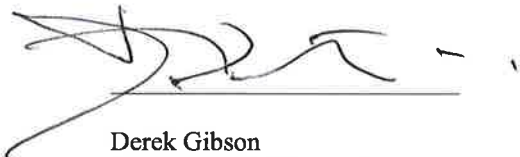
	<b>30 Jun 2018</b>	<b>31 Dec 2017</b>
Capital ratio (Basel III)		
CET1 capital ratio	10.98%	12.26%
Tier 1 capital ratio	12.62%	12.77%
Total capital ratio	14.47%	14.99%
	EUR Million	EUR Million
Total equity	104,445	106,832

### Other financial information

	<b>30 Jun 2018</b>	<b>31 Dec 2017</b>
	EUR Million	EUR Million
Total assets	1,433,833	1,444,305
Total liabilities	1,329,388	1,337,472
Total advances to customers	862,092	848,915
Total customer deposits	774,425	777,730
	<b>6 months ended</b>	<b>6 months ended</b>
	<b>30 Jun 2018</b>	<b>30 Jun 2017</b>
	EUR Million	EUR Million
Pre-tax profit	6,899	6,585

### **Statement of Compliance**

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  
Alternate Chief Executive  
Banco Santander, S.A. Hong Kong Branch