

SCOTIABANK (HONG KONG) LIMITED

Unaudited Interim Financial Information Disclosure Statement as at April 30, 2019

Statement of profit or loss and other comprehensive income

	Note	6 mths ended Apr-30-19 HKD'000	6 mths ended Apr-30-18 HKD'000
Interest income	2(a)	190,325	150,752
Interest expense	2(b)	(111,906)	(70,466)
Net interest income		<u>78,419</u>	<u>80,286</u>
Fees and commission income	3	10,147	11,548
Other operating loss		(678)	(284)
Operating income		<u>87,888</u>	<u>91,550</u>
Operating expenses	4	(23,929)	(23,674)
Operating profit before impairment		<u>63,959</u>	<u>67,876</u>
Impairment release		500	927
Profit before taxation		<u>64,459</u>	<u>68,803</u>
Income tax	5	(10,480)	(11,352)
Profit after taxation		<u>53,979</u>	<u>57,451</u>
Profit for the period		<u>53,979</u>	<u>57,451</u>
Other comprehensive income			
Investment securities measured at fair value through other comprehensive income			
- fair value changes during the period		(534)	224
- deferred taxes		(127)	(37)
Other comprehensive income for the period, net of tax		<u>(661)</u>	<u>187</u>
Total comprehensive income for the period		<u>53,318</u>	<u>57,638</u>

Statement of financial position

		Apr-30-19 HKD'000	Oct-31-18 HKD'000
Assets			
Cash and cash equivalents	6	2,066,639	2,352,505
Loans and advances	9(a)	11,807,570	11,992,169
Trade bills		75,321	84,572
Investment securities measured at fair value through other comprehensive income	7	1,694,958	2,023,461
Current tax assets	8(a)	-	336
Deferred tax assets	8(b)	421	377
Other assets		29,848	26,602
Total assets		<u>15,674,757</u>	<u>16,480,022</u>
Liabilities			
Deposits and balances from banks		10,271,817	11,027,492
Current taxation	8(a)	10,061	-
Other liabilities		30,448	28,417
Total liabilities		<u>10,312,326</u>	<u>11,055,909</u>
Equities			
Share Capital		2,796,181	2,796,181
Reserves		2,566,250	2,627,932
Total equity		<u>5,362,431</u>	<u>5,424,113</u>
Total liabilities and equity		<u>15,674,757</u>	<u>16,480,022</u>

Statement of changes in equity

	Share capital HKD'000	Fair value reserve on FVTOCI securities HKD'000	Retained profits HKD'000	Total equity HKD'000
At 1 November 2017	2,796,181	(204)	2,628,424	5,424,401
Dividend paid in respect of the previous year	-	-	(116,000)	(116,000)
Total comprehensive income for the period	-	187	57,451	57,638
At 30 April 2018	<u>2,796,181</u>	<u>(17)</u>	<u>2,569,875</u>	<u>5,366,039</u>
Total comprehensive income for the period	-	176	57,898	58,074
At 31 October 2018	<u>2,796,181</u>	<u>159</u>	<u>2,627,773</u>	<u>5,424,113</u>
Dividend paid in respect of the previous year	-	-	(115,000)	(115,000)
Total comprehensive income for the period	-	(661)	53,979	53,318
At 30 April 2019	<u>2,796,181</u>	<u>(502)</u>	<u>2,566,752</u>	<u>5,362,431</u>

Cash flow statement

	Apr-30-19 HKD'000	Apr-30-18 HKD'000
Operating activities		
Profit before taxation	64,459	68,803
Adjustment for: impairment release	(500)	(927)
	<u>63,959</u>	<u>67,876</u>
(Increase)/ decrease in operating assets		
Loans and advances	184,922	2,196,271
Trade bills	9,258	(804,205)
Other assets	(3,246)	(4,466)
	<u>190,934</u>	<u>1,387,600</u>
Increase/ (decrease) in operating liabilities		
Deposits and balances of banks	(755,675)	(1,262,160)
Other liabilities	2,142	12,372
	<u>(753,533)</u>	<u>(1,249,788)</u>
Net cash (used in)/ generated from operating activities	<u>(498,640)</u>	<u>205,688</u>
Investing activities		
(Increase)/ decrease in FVTOCI	323,270	(118,733)
Interest received	4,443	1,756
Net cash generated/ (used in) from investing activities	<u>327,713</u>	<u>(116,977)</u>
Financing activity		
Dividend paid	(115,000)	(116,000)
Net cash used in financing activity	<u>(115,000)</u>	<u>(116,000)</u>
Net decrease in cash and cash equivalents	(285,927)	(27,289)
Cash and cash equivalents at beginning of the period	<u>2,352,784</u>	<u>1,592,969</u>
Cash and cash equivalents at end of the period	<u>2,066,857</u>	<u>1,565,680</u>
Cash flows from operating activities include		
Interest received	186,318	145,634
Interest paid	(108,551)	(60,305)
	<u>77,767</u>	<u>85,329</u>
Analysis of cash and cash equivalents		
Cash and cash equivalents with original maturity within three months	<u>2,066,857</u>	<u>1,565,680</u>

Notes to the financial statements

1 Basis of preparation and accounting policies

The accounting policies and methods of computation used in the preparation of the 2019 interim financial statements are consistent with those used and described in the Company's annual audited financial statements for the year ended 31 October 2018.

2 Interest income and interest expense	Apr-30-19 HKD'000	Apr-30-18 HKD'000
(a) Interest income		
Unlisted FVTOCI debt securities	4,443	1,756
Loans and advances	184,352	147,532
Deposits from banks	<u>1,530</u>	<u>1,464</u>
Interest income on financial assets that are not at fair value through profit or loss as included in the statement of profit or loss	<u>190,325</u>	<u>150,752</u>
Total interest income on all financial assets	<u><u>190,325</u></u>	<u><u>150,752</u></u>
All interest income is calculated using the effective interest rate method.		
(b) Interest expense		
Deposits from banks	110,515	69,426
Unlisted FVTOCI debt securities	<u>1,391</u>	<u>1,040</u>
Interest expense on financial liabilities that are not at fair value through profit or loss as included in the statement of profit or loss	<u>111,906</u>	<u>70,466</u>
Total interest expense on all financial liabilities	<u><u>111,906</u></u>	<u><u>70,466</u></u>
3 Fee and commission income	Apr-30-19 HKD'000	Apr-30-18 HKD'000
Loan fees	3,430	4,480
Trade finance fees	305	382
Administration and other service fee income earned from the ultimate holding company and fellow subsidiary company	6,410	6,683
Others	<u>2</u>	<u>3</u>
	<u><u>10,147</u></u>	<u><u>11,548</u></u>
4 Operating expenses	Apr-30-19 HKD'000	Apr-30-18 HKD'000
Staff expenses	8,190	7,500
Premises and equipment expenses	1,627	1,499
Administration services fee	8,315	6,003
Others	<u>5,797</u>	<u>8,672</u>
	<u><u>23,929</u></u>	<u><u>23,674</u></u>
5 Income tax in the statement of profit or loss	Apr-30-19 HKD'000	Apr-30-18 HKD'000
Current tax - Hong Kong Profits Tax		
Provision for the period	10,397	11,199
Deferred taxation		
Origination and reversal of temporary differences	<u>83</u>	<u>153</u>
	<u><u>10,480</u></u>	<u><u>11,352</u></u>
6 Cash and cash equivalents	Apr-30-19 HKD'000	Apr-30-18 HKD'000
Cash and cash equivalents	<u>2,066,857</u>	<u>1,565,680</u>
Cash and cash equivalents in the cash flow statement	2,066,857	1,565,680
Stage 1 expected credit loss provision	<u>(218)</u>	<u>(253)</u>
Cash and cash equivalents in the statement of financial position	<u><u>2,066,639</u></u>	<u><u>1,565,427</u></u>

7 Investment securities measured at fair value through other comprehensive income	Apr-30-19 HKD'000	Oct-31-18 HKD'000
Debt securities	1,694,958	2,023,461
Issued by:		
Sovereigns	1,694,958	2,023,461
Analysed by place of listing:		
Unlisted	1,694,958	2,023,461

8 Income tax in the statement of financial position	Apr-30-19 HKD'000	Oct-31-18 HKD'000
(a) Current taxation in the statement of financial position represents:		
Provision for Hong Kong Profits Tax for the period	10,398	22,002
Current period payment	-	(19,431)
Balance of Profits Tax provision relating to prior periods	(337)	(2,907)
Current tax (asset)/ liabilities	10,061	(336)

(b) Deferred tax assets recognised:

The components of deferred tax assets recognized in the statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	Impairment allowance on loans and advances HKD'000	Revaluation of FVTOCI financial assets HKD'000	Total HKD'000
At 1 November 2018	408	(31)	377
Charged to statement of profit or loss	(83)	-	(83)
Charged to FVTOCI fair value reserve	-	127	127
At 30 April 2019	325	96	421
At 1 November 2017	609	40	649
Charged to statement of profit or loss	(201)	-	(201)
Charged to FVTOCI fair value reserve	-	(71)	(71)
At 31 October 2018	408	(31)	377

9 Loans and advances

(a) Analysis of advances to customers by industry sector

	Apr-30-19		
	Gross loans and advances HKD'000	% of gross loans and advances covered by collateral	Collectively assessed impairment allowance HKD'000
<i>Industrial, commercial & financial</i>			
- Property investment	280,000	-	20
- Manufacturing	1,568,960	-	181
- Transport and Transport equipment	428,326	-	44
- Electricity, gas and telecommunications	1,500,000	-	174
- Others	2,559,480	30.3%	229
Loans and advances for use in Hong Kong	6,336,766	15.0%	648
Loans and advances for use outside Hong Kong	5,472,123	8.9%	671
Total advances to customers	11,808,889	10.1%	1,319
	Oct-31-18		
	Gross loans and advances HKD'000	% of gross loans and advances covered by collateral	Collectively assessed impairment allowance HKD'000
<i>Industrial, commercial & financial</i>			
- Property investment	275,337	-	19
- Manufacturing	2,106,465	-	299
- Transport and Transport equipment	465,239	8.3%	75
- Electricity, gas and telecommunications	1,482,657	-	171
- Others	2,553,009	30.4%	344
Loans and advances for use in Hong Kong	6,882,707	11.8%	908
Loans and advances for use outside Hong Kong	5,111,104	1.2%	734
Total advances to customers	11,993,811	7.3%	1,642

(b) Impaired assets

No advances to customers, banks and other financial institutions were impaired as at April 30, 2019 (October 31, 2018: Nil).

(c) Overdue advances

No advances to customers, banks and other financial institutions and other assets were overdue as at April 30, 2019 (October 31, 2018: Nil).

(d) Rescheduled advances

No advances to customers, banks and other financial institutions were rescheduled as at April 30, 2019 (October 31, 2018: Nil).

(e) Repossessed assets

No repossessed asset was held as at April 30, 2019 (October 31, 2018: Nil).

10 Contingent liabilities and commitments

Apr-30-19
HKD'000

Oct-31-18
HKD'000

Notional amount:

- Direct credit substitutes	686,314	713,793
- Transaction-related contingencies	63,385	63,385
- Trade-related contingencies	46,539	107,382
- Other commitments with original maturity of more than 1 year	2,169,889	2,805,000
- Other commitments which are unconditionally cancellable	2,857,008	2,247,195
Total	<u>5,823,135</u>	<u>5,936,755</u>

Credit risk weighted amount

1,561,259 1,918,462

11 Non-bank Mainland exposures

Non-bank Mainland exposures as at April 30, 2019 which had exceeded 10% of total loans and advances to customers were analysed as follows:

	On-Balance sheet exposure	Apr-30-19 Off-Balance sheet exposure	Total
	HKD'000	HKD'000	HKD'000
- Central government, central government-owned entities and their subsidiaries and JV	3,624,255	970,794	4,595,049
- PRC nationals residing outside Mainland China or other entities incorporated outside Mainland China where the credit is granted or use in Mainland China	278,167	590,000	868,167
Total	<u>3,902,422</u>	<u>1,560,794</u>	<u>5,463,216</u>
Total assets after provision	<u>15,674,757</u>		
On-balance sheet exposures as % of total assets	<u>24.90%</u>		

	On-Balance sheet exposure	Oct-31-18 Off-Balance sheet exposure	Total
	HKD'000	HKD'000	HKD'000
- Central government, central government-owned entities and their subsidiaries and JV	3,619,693	998,353	4,618,046
- PRC nationals residing outside Mainland China or other entities incorporated outside Mainland China where the credit is granted or use in Mainland China	278,150	655,000	933,150
Total	<u>3,897,843</u>	<u>1,653,353</u>	<u>5,551,196</u>
Total assets after provision	<u>16,480,022</u>		
On-balance sheet exposures as % of total assets	<u>23.65%</u>		

12 Analysis of total advances to customers by geographic areas after risk transfer

	Apr-30-19 HKD'000	Oct-31-18 HKD'000
Hong Kong	7,515,740	8,413,740
Asia Pacific excluding Hong Kong	<u>4,293,149</u>	<u>3,580,071</u>
	<u>11,808,889</u>	<u>11,993,811</u>

13 International claims

The following table provides a breakdown of international claims by major countries and geographical segments. Only major countries or geographical locations with not less than 10% of the total international claims after taking into account any recognized risk transferred are disclosed.

	Apr-30-19				Total HKD'000
	Banks HKD'000	Official Sector HKD'000	Non-financial institutions HKD'000	Non-financial Private Sector HKD'000	
Developed Countries		1,197,204	-	-	1,197,204
<i>of which Japan</i>		<u>1,197,204</u>	-	-	<u>1,197,204</u>
Offshore Centres	-	-	-	4,198,026	4,198,026
<i>of which Hong Kong</i>	-	-	-	<u>4,198,026</u>	<u>4,198,026</u>
Developing Asia and Pacific	75,327	-	1,966,361	1,592,852	3,634,540
<i>of which China</i>	<u>75,327</u>	-	<u>1,574,071</u>	<u>1,578,982</u>	<u>3,228,380</u>

	Oct-31-18				Total HKD'000
	Banks HKD'000	Official Sector HKD'000	Non-financial institutions HKD'000	Non-financial Private Sector HKD'000	
Developed Countries	-	1,525,139	-	-	1,525,139
<i>of which Japan</i>	-	<u>1,525,139</u>	-	-	<u>1,525,139</u>
Offshore Centres	-	-	-	4,337,488	4,337,488
<i>of which Hong Kong</i>	-	-	-	<u>4,337,488</u>	<u>4,337,488</u>
Developing Asia and Pacific	84,585	-	1,962,174	1,638,039	3,684,798
<i>of which China</i>	<u>84,585</u>	-	<u>1,569,844</u>	<u>1,578,597</u>	<u>3,233,026</u>

Claims arising between group companies were excluded.

14 Currency risk

The following net position constitutes 10% or more (either positive or negative) of the total net position in all foreign currencies:

<i>Equivalent in HKD'000</i>	Apr-30-19		Total
	USD	JPY	
Spot assets	7,255,469	1,199,538	8,455,007
Spot liabilities	(7,239,342)	(1,197,818)	(8,437,160)
Forward purchases	-	-	-
Forward sales	-	-	-
Net option position	-	-	-
Net long/ (short) position	<u>16,127</u>	<u>1,720</u>	<u>17,847</u>

<i>Equivalent in HKD'000</i>	Oct-31-18		Total
	USD	JPY	
Spot assets	7,671,327	1,527,115	9,198,442
Spot liabilities	(7,662,471)	(1,525,501)	(9,187,972)
Forward purchases	-	-	-
Forward sales	-	-	-
Net option position	-	-	-
Net long/ (short) position	<u>8,856</u>	<u>1,614</u>	<u>10,470</u>

No structural assets and liabilities as at April 30, 2019 (October 31, 2018: Nil).

15 Capital adequacy ratio

	Apr-30-19	Oct-31-18
CET1 capital ratio	43.61%	41.69%
Tier 1 capital ratio	43.61%	41.69%
Total capital ratio	43.62%	41.71%

16 Countercyclical Capital Buffer (CCyB) Ratio	Apr-30-19	Oct-31-18
CCyB ratio	<u>2.06%</u>	<u>1.55%</u>
17 Leverage ratio	Apr-30-19	Oct-31-18
Leverage ratio	<u>30.17%</u>	<u>28.74%</u>

18 Liquidity Risk Management

Liquidity risk is the risk that the company is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to counterparties, and lending and investment commitments.

Effective liquidity risk management is essential to maintain the confidence of counterparties, manage the company's cost of funds and to support core business activities, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on risk exposures and performance against approved limits. The Asset-Liability Committee (ALCO) provides senior management oversight of liquidity risk.

The key elements of the liquidity risk framework are:

- Measurement and modeling – the company's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short-term horizons (cash gaps), a minimum level of core liquidity, and liquidity stress tests.
- Reporting – support the ALCO with analysis, risk measurement, stress testing, monitoring and reporting for their oversight of all significant liquidity risks.
- Stress testing – the company performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and company-specific disruptions on the company's liquidity position. Liquidity stress testing has many purposes including:
 - Helping the company to understand the potential behavior of various on-balance sheet and off-balance sheet positions in circumstances of stress; and
 - Based on this knowledge, facilitating the development of risk mitigation and contingency plans.

The company's liquidity stress tests consider the effect of changes in funding assumptions, and the market value of liquid assets. The company performs industry standard stress tests, the results of which are reviewed by senior management and are considered in making liquidity management decisions.

- Contingency planning – the company maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event.
- Funding diversification – the company actively manages the diversification of its funding liabilities by term.
- Core liquidity – the company maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to company-specific events.

The following analysis shows the liquidity position for the period ended Apr 30, 2019 and its comparative period:

	6 mths ended Apr-30-19	6 mths ended Apr-30-18
Average liquidity maintenance ratio	<u>52.56%</u>	<u>49.83%</u>

The average liquidity maintenance ratio is the simple average of each calendar month's average ratio and has been computed in accordance with the Banking (Liquidity) Rule.

19 Disclosure statement available to the public

To comply with the Banking (Disclosure) Rules, the interim disclosure statement and all Pillar 3 interim disclosure which are published by using the standard disclosure templates as specified by the HKMA are available under the "Regulatory Disclosures" Section on the Parent Bank's website www.scotiabank.com/global/en/country/hong-kong.html

SCOTIABANK (HONG KONG) LIMITED

A handwritten signature in blue ink, appearing to read 'Osbert H. W. Ho', with a long, sweeping flourish extending to the right.

Osbert H. W. Ho
Alternate Chief Executive

July 31, 2019

Note: In the event of any difference in interpretation or meaning between the Chinese and English version of this Statement, the English version shall prevail.