Santander 桑坦德銀行

Banco Santander, S.A.
Hong Kong Branch

(A public limited liability company incorporated in Spain)

Financial Disclosure Statement

For the year ended 31 December 2019

Santander 桑坦德銀行

BANCO SANTANDER, S.A.
HONG KONG BRANCH
(A public limited liability company incorporated in Spain)

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Unaudited Income Statement

	Note	For the year ended 31 Dec 2019 HK$'000	31 Dec 2018 HK$'000
Interest income		1,213,924	1,067,864
Interest expense		(1,298,882)	(1,201,910)
Other operating income			
- Gains less losses arising from trading in foreign currencies		572,166	554,216
- Gains less losses from other trading activities		(18,091)	18,371
- Net fees and commission income	1	110,204	110,403
- Others		22,824	13,010
Total operating income		**602,145**	**561,954**
Operating expenses			
- Staff expenses		(393,894)	(359,616)
- Rental expenses		(37,896)	(37,211)
- Other expenses		(144,243)	(113,923)
Release / (charge) of impairment allowances for loans and other exposures		194	(1,392)
Gains less losses from the disposal of property, plant and equipment		(3)	20
Total operating expenses		**(575,842)**	**(512,122)**
Profit before taxation		**26,303**	**49,832**
Tax expense		(19,527)	(23,639)
Profit after taxation		**6,776**	**26,193**

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Unaudited Balance Sheet

	Note	31 Dec 2019 HK$'000	30 Jun 2019 HK$'000
ASSETS			
Cash and balances with banks (except those included in amount due from overseas offices)		1,787,726	2,838,286
Due from Exchange Fund		21,820	3,052
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)		5,023,122	7,821,665
Amount due from overseas offices		18,242,276	18,561,271
Trade bills		1,192,872	2,700,504
Loans and receivables	2	23,405,179	25,837,306
Investment securities		9,704,692	15,506,162
Property, plant and equipment		108,210	33,758
TOTAL ASSETS		**59,485,897**	**73,302,004**
LIABILITIES			
Deposits and balances from banks (except those included in amount due to overseas offices)		4,740,798	25,854,778
Due to Exchange Fund		-	6,206,835
Deposits from customers			
- demand deposits and current accounts		12,643	6,811
- savings deposits		338,809	302,129
- time, call and notice deposits		38,932	250,000
Amount due to overseas offices		50,077,832	34,997,980
Certificates of deposit issued		-	800,000
Accrued interest, other liabilities and provisions		4,276,883	4,883,471
TOTAL LIABILITIES		**59,485,897**	**73,302,004**

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Unaudited Supplementary Information

1. Net fees and commission income

	For the year ended 31 Dec 2019 HK$'000	For the year ended 31 Dec 2018 HK$'000
Gross fees and commission income	153,082	142,577
Gross fees and commission expenses	(42,878)	(32,174)
Net fees and commission income	110,204	110,403

2. Loans and receivables

	31 Dec 2019 HK$'000	30 Jun 2019 HK$'000
Loans and advances to customers (note 8)	20,289,609	23,208,805
Accrued interest and other accounts	3,122,189	2,635,735
	23,411,798	25,844,540
Impairment allowances		
- Stage 1	(6,619)	(7,234)
	23,405,179	25,837,306

3. Impaired loans and advances

There were no impaired loans and advances to customers or banks as at 31 December 2019 and 30 June 2019.

4. Derivative transactions

	31 Dec 2019 HK$'000	30 Jun 2019 HK$'000
Nominal amounts		
- Exchange rate-related derivative contracts	373,133,850	317,161,808
- Interest rate derivative contracts	82,542,538	66,735,185

Unaudited Supplementary Information (Continued)

4. Derivative transactions (continued)

	31 Dec 2019 HK$'000	30 Jun 2019 HK$'000
Fair value assets		
- Exchange rate-related derivative contracts	2,572,203	2,006,334
- Interest rate derivative contracts	471,235	464,539
Fair value liabilities		
- Exchange rate-related derivative contracts	2,123,959	2,061,485
- Interest rate derivative contracts	516,617	488,213

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs. They do not take into account the effects of bilateral netting arrangements.

5. Off-balance sheet exposures

	31 Dec 2019 HK$'000	30 Jun 2019 HK$'000
Contractual amounts		
- Direct credit substitutes	1,880,005	1,905,837
- Transaction-related contingencies	1,036,009	1,646,429
- Trade-related contingencies	2,446,593	3,069,322
- Other commitments	39,137,546	30,674,358
- Others (forward forward deposits placed)	-	2,935,484

Unaudited Supplementary Information (Continued)

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:

			Non-bank private sector			
HK$ million	**Banks**	**Official sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Others**	**Total**
As at 31 Dec 2019						
Developed countries	18,598	7,607	-	988	-	27,193
Of which: Spain	*18,308*	-	-	-	-	*18,308*
Japan	*2*	*7,607*	-	-	-	*7,609*
Offshore centres	662	-	4,469	8,232	-	13,363
Of which: Hong Kong	*662*	-	*4,469*	*4,901*	-	*10,032*
Developing Asia and Pacific	6,693	-	602	5,473	-	12,768
Of which: China	*6,688*	-	*602*	*5,473*	-	*12,763*

			Non-bank private sector			
HK$ million	**Banks**	**Official sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Others**	**Total**
As at 30 Jun 2019						
Developed countries	18,869	13,460	-	1,571	-	33,900
Of which: Spain	*18,656*	-	-	*550*	-	*19,206*
Japan	*1*	*13,460*	-	-	-	*13,461*
Offshore centres	1,378	-	1,902	12,679	-	15,959
Of which: Hong Kong	*750*	-	*1,902*	*9,828*	-	*12,480*
Developing Asia and Pacific	11,410	-	-	6,011	-	17,421
Of which: China	*11,409*	-	-	*6,008*	-	*17,417*

Unaudited Supplementary Information (Continued)

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:

	31 Dec 2019		30 Jun 2019	
	HK$'000	% to total advances to customers	HK$'000	% to total advances to customers
Gross amount of advances				
- Hong Kong	9,618,455	47.41%	12,525,634	53.97%
- China	6,066,609	29.90%	5,999,568	25.85%
- Others	4,604,545	22.69%	4,683,603	20.18%
	20,289,609	100.00%	23,208,805	100.00%
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:

	31 Dec 2019		30 Jun 2019	
	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	322,292	-	594,353	-
- Manufacturing	716,354	-	1,108,425	-
- Others	389,322	-	1,789,073	-
	1,427,968		3,491,851	
Trade Finance	1,659,560	1.00%	3,936,632	0.71%
Loans and advances for use outside Hong Kong	17,202,081	0.90%	15,780,322	0.68%
Gross loans and advances to customers (note 2)	20,289,609		23,208,805	

9. Overdue or rescheduled assets

As at 31 December 2019 and 30 June 2019, 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 31 December 2019 and 30 June 2019.

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
As at 31 Dec 2019			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	15,560	3,971	19,531
2. Local governments, local government-owned entities and their subsidiaries and JVs	323	-	323
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	873	449	1,322
4. Other entities of central government not reported in item 1 above	717	-	717
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	-	-	-
Total	17,473	4,420	21,893
Total assets after provision	59,485		
On-balance sheet exposures as percentage of total assets	29.37%		

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
As at 30 Jun 2019			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	16,658	5,659	22,317
2. Local governments, local government-owned entities and their subsidiaries and JVs	200	-	200
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,255	1,552	2,807
4. Other entities of central government not reported in item 1 above	1,109	5	1,114
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	-	-	-
Total	19,222	7,216	26,438
Total assets after provision	73,301		
On-balance sheet exposures as percentage of total assets	26.22%		

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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	CNY	GBP	JPY	USD	Others	Total
As at 31 Dec 2019						
Spot assets	914	1,426	7,648	28,388	18,612	56,988
Spot liabilities	(103)	(139)	-	(48,649)	(10,467)	(59,358)
Forward purchases	61,594	1,293	52,238	181,198	39,572	335,895
Forward sales	(62,444)	(2,568)	(59,898)	(160,784)	(47,722)	(333,416)
Net option position	-	-	-	-	-	-
Net long (short) position	(39)	12	(12)	153	(5)	109
Net structural position	-	-	-	5	-	5

HK$ million	CNY	GBP	JPY	USD	Others	Total
As at 30 Jun 2019						
Spot assets	898	2,038	13,502	33,589	20,343	70,370
Spot liabilities	(128)	(1,364)	(1,634)	(53,478)	(15,006)	(71,610)
Forward purchases	52,606	1,579	30,187	161,669	44,051	290,092
Forward sales	(53,229)	(2,245)	(42,094)	(141,871)	(49,394)	(288,833)
Net option position	-	-	-	-	-	-
Net long (short) position	147	8	(39)	(91)	(6)	19
Net structural position	-	-	-	6	-	6

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

Unaudited Supplementary Information (Continued)

13. Liquidity information disclosures

i. Liquidity maintenance ratio ("LMR")

	For the quarter ended 31 Dec 2019	31 Dec 2018
Average LMR for the financial period	45.83%	56.75%

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.

ii Liquidity risk management

Liquidity risk comprises the risk of the Banco Santander, S.A. 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 are set at the Head Office level. This risk tolerance is transmitted to the Branch level by the setting of individual branch liquidity gap measures, other liquidity metrics, and controls.

Governance

The Santander approach to risk management is committee-based for all decisions. The Branch has a Finance Forum, 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. Finance Forum formulates and approves on a yearly basis a strategic funding plan for the Branch. The plan is regularly reviewed to take into account of projected balance sheet growth and liquidity sources. The Branch also has an Asia SCIB Executive Risk Committee ("APAC ERC"), responsible for approving risk documents and limits, including but not limited to, those related to liquidity. 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 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. Financial Management designs and executes funding strategies in accordance with the Branch Liquidity Risk Management Standards. The management of daily liquidity position is delegated to Global Market department.

13. Liquidity information disclosures (continued)

ii. Liquidity risk management (continued)

Liquidity metrics reporting

The Branch has put in place a set of metrics and monitoring tools to measure and identify its liquidity risk. Daily monitoring of 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, intraday liquidity stress testing, liquidity coverage ratio, and net stable funding ratio, etc. which are submitted for review in Finance Forum and APAC ERC.

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's 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 along with the Liquidity Risk Management Manual to ensure its effectiveness.

Results of the stress tests are reported to APAC ERC and Finance Forum, and are considered in the Branch's strategic funding plan and the formulation of the Contingency Funding Plan.

Funding and market access

The aim is to maintain a self-funding posture to the greatest extent possible, as long as it contributes to greater efficiency of interest expense at Santander group level. However, as a full branch of Banco Santander S.A., the Head Office is always ready as a source of funding for the Branch in times of stress. The Branch actively pursues funding from different market sources and Finance Forum reviews the liabilities compositions monthly to ensure that funding concentrations are managed to a minimum with the constraints of the business model.

Maintenance of liquidity cushion

The Branch holds a liquidity cushion to cope with liquidity needs at all times, including during periods of stress. The composition of the Branch's liquidity cushion consists of cash and high quality marketable securities issued or guaranteed by sovereigns. Currently the Branch holds Hong Kong Exchange Fund Bills (HKD) and Japan Government Bond (JPY) for these purposes.

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 with defined roles and responsibilities to address any stress situations and prepare the Branch for additional funding pressures should they develop. The CFP will be reviewed on at least an annual basis by Finance Forum.

Unaudited Supplementary Information (Continued)

iii. Liquidity gap

The table below analyses the on- and off-balance sheet items of the Branch, broken down into maturity buckets and the resultant liquidity gaps:

HK$ million	Total amount	Next day	2 to 7 days	8 days to 1 month	>1 month up to 3 months	>3 months up to 6 months	>6 months up to 1 year	>1 year up to 2 years	>2 years up to 3 years	>3 years up to 5 years	Over 5 years	Balancing amount
As at 31 Dec 2019												
Amount receivable arising from derivative contracts	2,610	35,801	31,952	39,491	103,222	84,248	31,835	11,794	99	1,772	41	-
Cash and due from banks	25,102	9,249	2,277	4,847	2,629	4,772	779	78	471	-	-	-
Trade bills	1,193	4	28	442	491	203	25	-	-	-	-	-
Debt securities held	9,705	9,705	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	20,189	224	1,657	6,473	2,063	1,187	4,153	2,180	352	1,118	782	-
Other assets	136	-	-	9	-	-	-	-	-	9	-	118
Total on-balance sheet assets	**58,935**	**54,983**	**35,914**	**51,262**	**108,405**	**90,410**	**36,792**	**14,052**	**922**	**2,899**	**823**	**118**
Total off-balance sheet claims	**35,649**	**20,076**	**15,573**	-	-	-	-	-	-	-	-	-
Deposits from customers	390	351	-	39	-	-	-	-	-	-	-	-
Amount payable arising from derivative contracts	2,207	35,634	31,932	39,423	103,071	84,190	31,846	11,818	98	1,752	57	-
Due to banks	54,928	806	327	21,122	11,875	10,757	9,260	-	703	-	78	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities and reserves	1,410	-	4	25	106	9	31	56	51	98	-	1,030
Total on-balance sheet liabilities	**58,935**	**36,791**	**32,263**	**60,609**	**115,052**	**94,956**	**41,137**	**11,874**	**852**	**1,850**	**135**	**1,030**
Total off-balance sheet obligations	**34,246**	**455**	**16,612**	**12,301**	**1,942**	**3**	**12**	**5**	-	-	-	**2,916**
Contractual maturity mismatch		**37,813**	**2,612**	**(21,648)**	**(8,589)**	**(4,549)**	**(4,357)**	**2,173**	**70**	**1,049**	**688**	
Cumulative contractual maturity mismatch		**37,813**	**40,425**	**18,777**	**10,188**	**5,639**	**1,282**	**3,455**	**3,525**	**4,574**	**5,262**	

Unaudited Supplementary Information (Continued)

iii. Liquidity gap (continued)

HK$ million	Total amount	Next day	2 to 7 days	8 days to 1 month	>1 month up to 3 months	>3 months up to 6 months	>6 months up to 1 year	>1 year up to 2 years	>2 years up to 3 years	>3 years up to 5 years	Over 5 years	Balancing amount
As at 31 Dec 2018												
Amount receivable arising from derivative contracts	2,325	32,409	20,383	20,122	20,127	52,674	5,277	6,054	6,361	45	768	-
Cash and due from banks	27,808	13,149	1,736	1,895	8,842	1,254	632	157	-	143	-	-
Trade bills	2,133	21	413	447	908	331	13	-	-	-	-	-
Debt securities held	15,406	15,406	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	16,514	49	30	4,768	2,990	253	3,303	582	2,650	1,024	865	-
Other assets	56	-	-	8	26	3	2	9	-	-	-	8
Total on-balance sheet assets	**64,242**	**61,034**	**22,562**	**27,240**	**32,893**	**54,515**	**9,227**	**6,802**	**9,011**	**1,212**	**1,633**	**8**
Total off-balance sheet claims	**7**	**-**	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits from customers	897	450	-	447	-	-	-	-	-	-	-	-
Amount payable arising from derivative contracts	2,446	32,397	20,538	19,935	20,224	52,764	5,250	6,045	6,355	41	6	-
Due to banks	58,852	13,780	3,060	16,758	21,236	3,940	-	-	-	-	78	-
Debt securities issued	730	-	-	-	650	80	-	-	-	-	-	-
Other liabilities and reserves	1,317	-	-	1	48	26	89	69	73	-	-	1,011
Total on-balance sheet liabilities	**64,242**	**46,627**	**23,598**	**37,141**	**42,158**	**56,810**	**5,339**	**6,114**	**6,428**	**41**	**84**	**1,011**
Total off-balance sheet obligations	**15,030**	**491**	**6,906**	**791**	**2,509**	**2**	**-**	**-**	**-**	**-**	**-**	**4,331**
Contractual maturity mismatch		**13,916**	**(7,942)**	**(10,685)**	**(11,774)**	**(2,297)**	**3,888**	**688**	**2,583**	**1,171**	**1,549**	
Cumulative contractual maturity mismatch		**13,916**	**5,974**	**(4,711)**	**(16,485)**	**(18,782)**	**(14,894)**	**(14,206)**	**(11,623)**	**(10,452)**	**(8,903)**	

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Unaudited Supplementary Information (Continued)

14. 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 2019 Annual Report of Banco Santander, S.A. for details.

Group Consolidated Financial Information

Capital and capital adequacy

	31 Dec 2019	**30 Jun 2019**
Capital ratio (Basel III)		
CET1 capital ratio	11.65%	11.30%
Tier 1 capital ratio	13.14%	12.87%
Total capital ratio	15.05%	14.83%
	EUR Million	EUR Million
Total equity	110,659	109,985

Other financial information

	31 Dec 2019 EUR Million	**30 Jun 2019** EUR Million
Total assets	1,522,695	1,512,096
Total liabilities	1,412,036	1,402,111
Total advances to customers	942,218	908,235
Total customer deposits	824,365	814,751

	For the year ended	
	31 Dec 2019 EUR Million	**31 Dec 2018** EUR Million
Pre-tax profit	12,543	14,201

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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 James Gibson
Alternate Chief Executive
Banco Santander, S.A. Hong Kong Branch
(A public limited liability company incorporated in Spain)