

# The Hongkong and Shanghai Banking Corporation Limited

Incorporated in the Hong Kong SAR with limited liability

## Sri Lanka Branch

Main Office - 24, Sir Baron Jayatilaka Mawatha, Colombo 1.

Income Statement		
For the period ended 30 September	2018	2017
	Rs. 'Mn	Rs. 'Mn
Interest income	21,834	20,907
Interest expenses	(8,026)	(7,589)
<b>Net interest income</b>	<b>13,808</b>	<b>13,319</b>
Fee and commission income	2,816	2,784
Fee and commission expenses	(655)	(652)
<b>Net fee and commission income</b>	<b>2,161</b>	<b>2,132</b>
Net gains/(losses) from trading	1,317	1,604
Net fair value gains/(losses) on:		
financial assets at fair value through profit or loss	(92)	(8)
financial liabilities at fair value through profit or loss	–	–
Net gains/(losses) on derecognition of financial assets:		
at fair value through profit or loss	–	–
at amortised cost	–	–
at fair value through other comprehensive income	312	308
Net other operating income	23	44
<b>Total operating income</b>	<b>17,529</b>	<b>17,399</b>
Impairment charges	(149)	(135)
<b>Net operating income</b>	<b>17,380</b>	<b>17,264</b>
Personal expenses	(2,831)	(2,604)
Depreciation and amortisation expenses	(219)	(232)
Other expenses	(4,946)	(4,690)
<b>Operating profit/(loss) before value added tax (VAT)</b>	<b>9,384</b>	<b>9,738</b>
Value added tax (VAT) on financial services	(1,438)	(1,405)
<b>Operating profit/(loss) after value added tax (VAT)</b>	<b>7,946</b>	<b>8,333</b>
Share of profits of associates and joint ventures	–	–
<b>Profit/(loss) before tax</b>	<b>7,946</b>	<b>8,333</b>
Tax expenses	(3,399)	(3,058)
<b>Profit/(loss) for the period</b>	<b>4,547</b>	<b>5,275</b>
<b>Profit attributable to:</b>		
equity holders of the parent	4,547	5,275
non-controlling interests	–	–

Statement of Comprehensive Income		
For the period ended 30 September	2018	2017
	Rs. 'Mn	Rs. 'Mn
<b>Profit/(loss) for the year</b>	<b>4,547</b>	<b>5,275</b>
<b>Items that will be reclassified to profit or loss</b>		
Exchange differences on translation of foreign operations	1,542	541
Net gains/(losses) on cash flow hedges	–	–
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	(1,306)	2,164
Share of profits of associates and joint ventures	–	–
Less: tax expense relating to items that will be reclassified to profit or loss	366	(604)
	<b>602</b>	<b>2,101</b>
<b>Items that will not be reclassified to profit or loss</b>		
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	–	–
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	–	–
Remeasurement of post-employment benefit obligations	(22)	37
Changes in revaluation surplus	–	–
Share of profits of associates and joint ventures	–	–
Less: tax expense relating to items that will not be reclassified to profit or loss	–	–
	<b>(22)</b>	<b>37</b>
<b>Other comprehensive income for the period, net of taxes</b>	<b>580</b>	<b>2,138</b>
<b>Total comprehensive income for the period</b>	<b>5,127</b>	<b>7,413</b>
<b>Attributable to:</b>		
equity holders of the parent	5,127	7,413
non-controlling interests	–	–

Statement of Financial Position		
	2018	Audited 2017
	As at 30 September	As at 31 December
	Rs. 'Mn	Rs. 'Mn
<b>Assets</b>		
Cash and cash equivalents	14,789	7,721
Balances with Central Bank	9,064	7,765
Placements with banks	50,642	41,215
Derivative financial instruments	2,907	1,265
Financial assets measured at fair value through profit or loss	15,554	4,762
Financial assets designated at fair value through profit or loss	–	–
Financial assets at amortised cost - loans and advances	239,905	202,739
Financial assets at amortised cost - debt instruments	5,294	–
Financial assets measured at fair value through other comprehensive income	104,300	150,869
Investments in subsidiaries	–	–
Investments in associates and joint ventures	–	–
Property, plant and equipment	3,899	3,941
Investment properties	–	–
Goodwill and intangible assets	–	–
Deferred tax assets	678	–
Other assets	12,539	14,629
<b>Total assets</b>	<b>459,571</b>	<b>434,906</b>
<b>Liabilities</b>		
Due to banks	183,648	175,401
Derivative financial instruments	1,949	1,033
Financial liabilities measured at fair value through profit or loss	–	–
Financial liabilities designated at fair value through profit or loss	–	–
Financial liabilities at amortised cost - due to depositors	196,793	180,725
Financial liabilities at amortised cost - due to other borrowers	–	–
Due to subsidiaries	–	–
Retirement benefit obligations	95	125
Current tax liabilities	2,437	1,923
Deferred tax liabilities	–	106
Other provisions	–	–
Other liabilities	18,949	18,745
<b>Total liabilities</b>	<b>403,871</b>	<b>378,058</b>
<b>Equity</b>		
Stated capital/Assigned capital	3,152	3,152
Statutory reserve fund	2,351	2,351
Retained earnings	35,810	37,173
Other reserves	14,387	14,172
<b>Total shareholders' equity</b>	<b>55,700</b>	<b>56,848</b>
Non-controlling interests	–	–
<b>Total equity</b>	<b>55,700</b>	<b>56,848</b>
<b>Total equity and liabilities</b>	<b>459,571</b>	<b>434,906</b>
<b>Contingent liabilities and commitments</b>	<b>517,028</b>	<b>533,264</b>
<b>Memorandum information</b>		
Number of employees	1,245	1,247
Number of branches	14	14

Statement of Cash Flows		
	As at 30 September 2018	Audited 2017
	Rs. 'Mn	As at 31 December 2017
	Rs. 'Mn	Rs. 'Mn
<b>Cash flows from operating activities</b>		
Interest receipts	23,472	27,604
Interest payments	(7,396)	(12,982)
Net commission receipts	2,161	2,797
Trading income	1,226	1,889
Payments to employees	(2,821)	(3,492)
VAT & NBT on financial services	(1,632)	(2,150)
Receipts from other operating activities	604	725
Payments to other operating activities	(4,545)	(6,055)
<b>Operating profit before change in operating assets and liabilities</b>	<b>11,069</b>	<b>8,336</b>
<b>(Increase)/decrease in operating assets</b>		
Balances with Central Bank of Sri Lanka	(1,299)	1,325
Financial assets at amortised cost - loans and advances	(48,626)	9,050
Treasury bills & bonds	29,204	(29,938)
Other assets	(1,371)	(1,929)
	<b>(22,092)</b>	<b>(21,492)</b>
<b>(Increase)/decrease in operating liabilities</b>		
Financial liabilities at amortised cost - due to depositors	16,068	(2,618)
Financial liabilities at amortised cost - due to other borrowers	8,247	23,816
Other liabilities	467	2,613
	<b>24,782</b>	<b>23,811</b>
<b>Net cash generated from operating activities before income tax</b>	<b>13,759</b>	<b>10,655</b>
Income tax paid	(3,065)	(4,483)
<b>Net cash (used in)/from operating activities</b>	<b>10,694</b>	<b>6,172</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant & equipment	(171)	(53)
Proceeds from sale of property, plant & equipment	0	26
Purchase of financial investments	–	–
Proceeds from sale and maturity of financial investments	–	–
Net purchase of intangible assets	–	–
Net cash flow from acquisition of investments in subsidiaries, joint ventures and associates	–	–
Net cash flow from disposal of subsidiaries, associates and joint ventures	–	–
Dividends received from investments in subsidiaries and associates	–	–
Others	–	–
<b>Net cash (used in)/from investing activities</b>	<b>(171)</b>	<b>(27)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from the issue of ordinary share capital	–	–
Net proceeds from the issue of other equity instruments	–	–
Net proceeds from the issue of subordinated debt	–	–
Repayment of subordinated debt	–	–
Interest paid on subordinated debt	–	–
Dividends paid to non-controlling interest	–	–
Dividends paid to shareholders of the parent company	–	–
Dividends paid to holders of other equity instruments	–	–
Profit transferred to head office	(5,035)	(6,425)
<b>Net cash (used in)/from financing activities</b>	<b>(5,035)</b>	<b>(6,425)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5,488</b>	<b>(280)</b>
Cash and cash equivalents at the beginning of the period	7,721	7,388
Exchange difference in respect of cash and cash equivalents	1,580	613
Cash and cash equivalents at the end of the period	<b>14,789</b>	<b>7,721</b>

Selected Performance Indicators		
	2018	Audited 2017
	As at 30 September	As at 31 December
<b>Regulatory Capital Adequacy (LKR Millions)</b>		
Common Equity Tier 1	44,642	45,862
Core (Tier 1) Capital	44,642	45,862
Total Capital Base	45,692	46,219
<b>Regulatory Capital Ratio</b>		
Common Equity Tier 1 Capital Ratio (Minimum Requirement, 6.375%)	14.32%	17.30%
Tier 1 Capital Ratio (Minimum Requirement, 7.875%)	14.32%	17.30%
Total Capital Ratio (Minimum Requirement, 11.875%)	14.65%	17.43%
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets (LKR Millions)		
Domestic banking unit	114,898	103,016
Off-shore banking unit	60,549	82,536
Statutory Liquid Assets Ratio (Minimum Requirement, 20%)		
Domestic banking unit	52.86%	55.67%
Off-shore banking unit	35.92%	47.49%
Total Stock of High-Quality Liquid Assets (LKR Millions)		
Rupee	59,082	89,241
All currency	59,167	89,369
Liquidity Coverage Ratio		
(Minimum Requirement, 2018 - 90%; 2017 - 80%)		
Rupee	146.86%	216.40%
All currency	295.93%	379.95%
<b>Assets Quality (Quality of Loan Portfolio)</b>		
Gross Non-Performing Advances Ratio (net of interest in suspense)	0.68%	0.86%
Net Non-Performing Advances (net of interest in suspense and provisions)	0.51%	0.56%
<b>Profitability</b>		
Interest Margin	4.39%	4.36%
Return on Assets (before tax)	2.53%	3.09%
Return on Equity	11.41%	15.20%

Note: Profitability ratios for 3Q18 are based on SLFRS data whereas comparatives are based on regulatory data.

Analysis of Deposits		
	As at 30 September 2018	Audited As at 31 December 2017
	Rs. 'Mn	Rs. 'Mn
<b>By product - Domestic Currency</b>		
Demand deposits (current accounts)	16,155	19,412
Savings deposits	20,320	22,735
Fixed deposits	68,563	67,159
Other deposits	2,144	2,005
<b>Sub total</b>	<b>107,182</b>	<b>111,311</b>
<b>By product - Foreign Currency</b>		
Demand deposits (current accounts)	45,733	22,305
Savings deposits	16,225	18,796
Fixed deposits	24,524	25,491
Other deposits	3,129	2,822
<b>Sub total</b>	<b>89,611</b>	<b>69,414</b>
<b>Total</b>	<b>196,793</b>	<b>180,725</b>

Analysis of Loans and Advances		
	2018	Audited 2017
	As at 30 September	As at 31 December
	Rs. 'Mn	Rs. 'Mn
<b>Product wise gross loans and advances</b>		
<b>By product - Domestic Currency</b>		
Overdrafts	20,515	12,628
Term loans	39,570	32,692
Lease rentals receivable	–	–
Credit cards	23,105	21,267
Pawning	–	–
Other loans	6	21
<b>Sub total</b>	<b>83,196</b>	<b>66,608</b>
<b>By product - Foreign Currency</b>		
Overdrafts	9,767	4,305
Term loans	144,911	131,552
Other loans	761	1,041
<b>Sub total</b>	<b>155,439</b>	<b>136,898</b>
<b>Total</b>	<b>238,635</b>	<b>203,506</b>

	As at 30 September 2018
	Rs. 'Mn
<b>Stage - wise impairment on loans and advances</b>	
<b>Gross loans and advances</b>	238,635
Less: accumulated impairment under stage 1	(672)
accumulated impairment under stage 2	(828)
accumulated impairment under stage 3	(617)
<b>Net loans and advances</b>	<b>236,518</b>

Movements of impairment during the period		As at 30 September 2018
		Rs. 'Mn
<b>Under stage 1</b>		
Charge/(write back) to income statement	(87)	
SLFRS 9 - Day 1 impact	717	
Other movements	42	
Closing balance as at 30/09/18		672
<b>Under stage 2</b>		
Charge/(write back) to income statement	(53)	
SLFRS 9 - Day 1 impact	890	
Other movements	31	
Closing balance as at 30/09/18		828
<b>Under stage 3</b>		
Opening balance	767	
Charge/(write back) to income statement	37	
SLFRS 9 - Day 1 impact	236	
Other movements	(423)	
Closing balance as at 30/09/18		617
<b>Total impairment</b>		<b>2,117</b>

Analysis of Financial Instruments by Measurement Basis				
For the period ended 30 September 2018	Amortised cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
	Rs. 'Mn	Rs. 'Mn	Rs. 'Mn	Rs. 'Mn
<b>Assets</b>				
Cash and cash equivalents	14,789	–	–	14,789
Balances with Central Banks	9,064	–	–	9,064
Placements with banks	50,642	–	–	50,642
Derivative financial instruments	–	2,907	–	2,907
Loans and advances	239,905	–	–	239,905
Debt instruments	5,294	15,554	104,300	125,148
Equity instruments	–	–	–	–
Acceptance and endorsements	6,376	–	–	6,376
<b>Total financial assets</b>	<b>326,070</b>	<b>18,461</b>	<b>104,300</b>	<b>448,831</b>
<b>Liabilities</b>				
Due to banks	183,648	–	–	183,648
Derivative financial instruments	–	1,949	–	1,949
Financial liabilities - due to depositors	196,793	–	–	196,793
Financial liabilities - due to other borrowers	–	–	–	–
Acceptance and endorsements	6,376	–	–	6,376
<b>Total financial liabilities</b>	<b>386,817</b>	<b>1,949</b>	<b>–</b>	<b>388,766</b>

Analysis of Financial Instruments by Measurement Basis				
For the period ended 31 December 2017	Held-for-trading	Amortised cost	Available-for-sale	Total
	Rs. 'Mn	Rs. 'Mn	Rs. 'Mn	Rs. 'Mn
<b>Assets</b>				
Cash and cash equivalents	–	7,721	–	7,721
Balances with Central Banks	–	7,765	–	7,765
Placements with banks	–	41,215	–	41,215
Derivative financial instruments	1,265	–	–	1,265
Other financial assets held-for-trading	4,762	–	–	4,762
Loans and receivables to banks	–	–	–	–
Loans and receivables to other customers	–	202,739	–	202,739
Financial investments	–	–	150,869	150,869