

# 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 31 December	Audited 2018 Rs. 'Mn	Audited 2017 Rs. 'Mn
Interest income	29,657	28,446
Interest expenses	(11,212)	(10,303)
<b>Net interest income</b>	<b>18,445</b>	<b>18,143</b>
Fee and commission income	4,047	3,680
Fee and commission expenses	(1,006)	(883)
<b>Net fee and commission income</b>	<b>3,041</b>	<b>2,797</b>
Net gains/(losses) from trading	2,104	2,038
Net fair value gains/(losses) on: Financial assets at fair value through profit or loss	(328)	(149)
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	60	52
<b>Total operating income</b>	<b>23,634</b>	<b>23,189</b>
Impairment charges	(169)	(249)
<b>Net operating income</b>	<b>23,465</b>	<b>22,940</b>
Personal expenses	(3,853)	(3,492)
Depreciation and amortisation expenses	(300)	(305)
Other expenses	(7,060)	(6,502)
<b>Operating profit/(loss) before taxes on financial services</b>	<b>12,252</b>	<b>12,641</b>
Value added tax (VAT) on financial services	(1,927)	(1,932)
Nation Building Tax (NBT) on financial services	(269)	(262)
<b>Operating profit/(loss) after taxes on financial services</b>	<b>10,056</b>	<b>10,709</b>
Share of profits of associates and joint ventures	-	-
<b>Profit/(loss) before tax</b>	<b>10,056</b>	<b>10,709</b>
Tax expenses	(3,935)	(4,301)
<b>Profit/(loss) for the period</b>	<b>6,121</b>	<b>6,408</b>
<b>Profit attributable to:</b>		
equity holders of the parent	6,121	6,408
non-controlling interests	-	-

Statement of Cash Flows		
As at 31 December	Audited 2018 Rs. 'Mn	Audited 2017 Rs. 'Mn
<b>Cash flows from operating activities</b>		
Interest receipts	30,309	27,604
Interest payments	(10,275)	(12,982)
Net commission receipts	3,040	2,797
Trading income	1,776	1,889
Payments to employees	(3,832)	(3,492)
VAT & NBT on financial services	(2,432)	(2,150)
Receipts from other operating activities	697	725
Payments to other operating activities	(6,547)	(6,055)
<b>Operating profit before change in operating assets and liabilities</b>	<b>12,736</b>	<b>8,336</b>
<b>(Increase)/decrease in operating assets</b>		
Balances with Central Bank of Sri Lanka	432	1,325
Financial assets at amortised cost - loans and advances	(63,293)	9,050
Treasury bills & bonds	36,240	(29,938)
Other assets	(2,984)	(1,929)
	(29,605)	(21,492)
<b>(Increase)/decrease in operating liabilities</b>		
Financial liabilities at amortised cost - due to depositors	25,148	(2,618)
Financial liabilities at amortised cost - due to other borrowers	9,386	23,816
Other liabilities	3,792	2,613
	38,326	23,811
<b>Net cash generated from operating activities before income tax</b>	<b>21,457</b>	<b>10,655</b>
Income tax paid	(4,376)	(4,483)
<b>Net cash (used in)/from operating activities</b>	<b>17,081</b>	<b>6,172</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant & equipment	(281)	(53)
Proceeds from sale of property, plant & equipment	23	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>(258)</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>11,788</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	3,993	613
Cash and cash equivalents at the end of the period	23,502	7,721

Statement of Comprehensive Income		
For the period ended 31 December	Audited 2018 Rs. 'Mn	Audited 2017 Rs. 'Mn
<b>Profit/(loss) for the year</b>	<b>6,121</b>	<b>6,408</b>
<b>Items that will be reclassified to profit or loss</b>		
Exchange differences on translation of foreign operations	3,921	627
Net gains/(losses) on cash flow hedges	-	-
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	(1,655)	2,409
Share of profits of associates and joint ventures	-	-
Less: tax expense relating to items that will be reclassified to profit or loss	463	(677)
	2,729	2,359
<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	34	(219)
Changes in revaluation surplus	873	463
Share of profits of associates and joint ventures	-	-
Less: tax expense relating to items that will not be reclassified to profit or loss	(852)	35
	55	279
<b>Other comprehensive income for the period, net of taxes</b>	<b>2,784</b>	<b>2,638</b>
<b>Total comprehensive income for the period</b>	<b>8,905</b>	<b>9,046</b>
<b>Attributable to:</b>		
equity holders of the parent	8,905	9,046
non-controlling interests	-	-

Selected Performance Indicators		
As at 31 December	Audited 2018	Audited 2017
<b>Regulatory Capital Adequacy (LKR Millions)</b>		
Common Equity Tier 1	51,904	45,862
Core (Tier 1) Capital	51,904	45,862
Total Capital Base	53,953	46,219
<b>Regulatory Capital Ratio</b>		
Common Equity Tier 1 Capital Ratio (Minimum Requirement, 6.375%)	15.16%	17.30%
Tier 1 Capital Ratio (Minimum Requirement, 7.875%)	15.16%	17.30%
Total Capital Ratio (Minimum Requirement, 11.875%)	15.47%	17.43%
<b>As at 31 December</b>	<b>Unaudited 2018</b>	<b>Unaudited 2017</b>
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets (LKR Millions)		
Domestic banking unit	115,206	103,016
Off-shore banking unit	70,116	82,536
Statutory Liquid Assets Ratio (Minimum Requirement, 20%)		
Domestic banking unit	54.33%	55.67%
Off-shore banking unit	39.38%	47.49%
Total Stock of High-Quality Liquid Assets (LKR Millions)		
Rupee	57,248	89,241
All currency	57,361	89,369
Liquidity Coverage Ratio (Minimum Requirement, 2018 - 90%; 2017 - 80%)		
Rupee	150.18%	216.40%
All currency	275.03%	379.95%
<b>Assets Quality (Quality of Loan Portfolio)</b>		
Gross Non-Performing Advances Ratio (net of interest in suspense)	0.69%	0.86%
Net Non-Performing Advances (net of interest in suspense and provisions)	0.52%	0.56%
<b>Profitability</b>		
Interest Margin	4.26%	4.36%
Return on Assets (before tax)	2.32%	3.09%
Return on Equity	11.18%	15.20%

Note: Profitability ratios for 2018 are based on SLFRS data whereas comparatives are based on regulatory data.

Analysis of Deposits		
As at 31 December	Audited 2018 Rs. 'Mn	Audited 2017 Rs. 'Mn
<b>By product - Domestic Currency</b>		
Demand deposits (current accounts)	15,579	19,412
Savings deposits	20,869	22,735
Fixed deposits	63,980	67,159
Other deposits	2,186	2,005
<b>Sub total</b>	<b>102,614</b>	<b>111,311</b>
<b>By product - Foreign Currency</b>		
Demand deposits (current accounts)	54,488	22,305
Savings deposits	19,435	18,796
Fixed deposits	26,026	25,491
Other deposits	3,310	2,822
<b>Sub total</b>	<b>103,259</b>	<b>69,414</b>
<b>Total</b>	<b>205,873</b>	<b>180,725</b>

Statement of Financial Position		
As at 31 December	Audited 2018 Rs. 'Mn	Audited 2017 Rs. 'Mn
<b>Assets</b>		
Cash and cash equivalents	23,502	7,721
Balances with Central Bank	7,333	7,765
Placements with banks	49,386	41,215
Derivative financial instruments	4,467	1,265
Financial assets measured at fair value through profit or loss	11,517	4,762
Financial assets designated at fair value through profit or loss	-	-
Financial assets at amortised cost - loans and advances	255,831	202,739
Financial assets measured at fair value through other comprehensive income	100,949	150,869
Financial assets at amortised cost	5,308	-
Investments in subsidiaries	-	-
Investments in associates and joint ventures	-	-
Property, plant and equipment	4,790	3,941
Investment properties	-	-
Goodwill and intangible assets	-	-
Deferred tax assets	-	-
Other assets	14,358	14,629
<b>Total assets</b>	<b>477,441</b>	<b>434,906</b>
<b>Liabilities</b>		
Due to banks	184,787	175,401
Derivative financial instruments	3,876	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	205,873	180,725
Financial liabilities at amortised cost - due to other borrowers	-	-
Due to subsidiaries	-	-
Retirement benefit obligations	23	125
Current tax liabilities	1,925	1,923
Deferred tax liabilities	133	106
Other provisions	-	-
Other liabilities	21,149	18,745
<b>Total liabilities</b>	<b>417,765</b>	<b>378,058</b>
<b>Equity</b>		
Stated capital/Assigned capital	3,152	3,152
Statutory reserve fund	2,473	2,351
Retained earnings	37,311	37,173
Other reserves	16,739	14,172
<b>Total shareholders' equity</b>	<b>59,675</b>	<b>56,848</b>
Non-controlling interests	-	-
<b>Total equity</b>	<b>59,675</b>	<b>56,848</b>
<b>Total equity and liabilities</b>	<b>477,441</b>	<b>434,906</b>
<b>Contingent liabilities and commitments</b>	<b>612,583</b>	<b>533,264</b>
<b>Memorandum information</b>		
Number of employees	1,245	1,247
Number of branches	14	14

Analysis of Loans and Advances		
As at 31 December	Audited 2018 Rs. 'Mn	Audited 2017 Rs. 'Mn
<b>Product wise gross loans and advances</b>		
<b>By product - Domestic Currency</b>		
Overdrafts	21,200	12,628
Term loans	41,094	32,692
Lease rentals receivable	-	-
Credit cards	24,428	21,267
Pawning	-	-
Other loans	131	21
<b>Sub total</b>	<b>86,853</b>	<b>66,608</b>
<b>By product - Foreign Currency</b>		
Overdrafts	14,659	4,305
Term loans	155,342	131,552
Other loans	1,129	1,041
<b>Sub total</b>	<b>171,130</b>	<b>136,898</b>
<b>Total</b>	<b>257,983</b>	<b>203,506</b>

Stage - wise impairment on loans and advances		As at 31 December 2018 Rs. 'Mn
<b>Gross loans and advances</b>		257,983
Less: accumulated impairment under stage 1		(817)
accumulated impairment under stage 2		(610)
accumulated impairment under stage 3		(725)
<b>Net loans and advances</b>		<b>255,831</b>

Movements of impairment during the period		As at 31 December 2018 Rs. 'Mn
<b>Under stage 1</b>		
Charge/(write back) to income statement		16
SLFRS 9 - Day 1 impact		719
Other movements		82
Closing balance as at 31/12/18		817
<b>Under stage 2</b>		
Charge/(write back) to income statement		(283)
SLFRS 9 - Day 1 impact		848
Other movements		45
Closing balance as at 31/12/18		610
<b>Under stage 3</b>		
Opening balance		767
Charge/(write back) to income statement		191
SLFRS 9 - Day 1 impact		236
Other movements		(469)
Closing balance as at 31/12/18		725
<b>Total impairment</b>		<b>2,152</b>

Analysis of Financial Instruments by Measurement Basis				
For the period ended 31 December 2018	Amortised cost Rs. 'Mn	Fair value through profit and loss Rs. 'Mn	Fair value through other comprehensive income Rs. 'Mn	Total Rs. 'Mn
<b>Assets</b>				
Cash and cash equivalents	23,502	-	-	23,502
Balances with Central Banks	7,333	-	-	7,333
Placements with banks	49,386	-	-	49,386
Derivative financial instruments	-	4,467	-	4,467
Loans and advances	255,831	-	-	255,831
Debt instruments	5,308	11,517	100,949	117,774
Equity instruments	-	-	-	-
Acceptance and endorsements	6,843	-	-	6,843
<b>Total financial assets</b>	<b>348,203</b>	<b>15,984</b>	<b>100,949</b>	<b>465,136</b>
<b>Liabilities</b>				
Due to banks	184,787	-	-	184,787
Derivative financial instruments	-	3,876	-	3,876
Financial liabilities - due to depositors	205,873	-	-	205,873
Financial liabilities - due to other borrowers	-	-	-	-
Acceptance and endorsements	6,843	-	-	6,843
<b>Total financial liabilities</b>	<b>397,503</b>	<b>3,876</b>	<b>-</b>	<b>401,379</b>

Analysis of Financial Instruments by Measurement Basis				
For the period ended 31 December 2017	Amortised cost Rs. 'Mn	Held-for-trading Rs. 'Mn	Available-for-sale Rs. 'Mn	Total 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
Acceptance and endorsements	6,240	-	-	6,240
<b>Total financial assets</b>	<b>265,680</b>	<b>6,027</b>	<b>150,869</b>	<b>422,576</b>
<b>Liabilities</b>				
Due to banks	175,401	-	-	175,401
Derivative financial instruments	-	1,033	-	1,033
Other financial liabilities at fair value through profit or loss	-	-	-	-
Due to other customers	180,725	-	-	180,725
Other borrowings	-	-	-	-
Debt				