Return of Current Year's Profit & Loss Account
MA(BS)1C

Summary of Proposed Changes

1. Reporting frequency of returns submitted by overseas branches of locally incorporated authorized institutions
(Return – Cover page; Completion instructions – Section A item 2)

To reduce the reporting burden of locally incorporated AIs, it is proposed that the frequency of such reporting be changed from a quarterly basis to half yearly, to the extent that the quarterly data can be supplemented by management information.

2. Investment in securities for reporting institutions adopting SSAP24
(Return – Part I items 3.2 and 3.3; Completion instructions – Section B Part I items 3.1- 3.3)

To avoid confusion with the terms used in SSAP24, the headings of items 3.2 and 3.3 of the Return are changed to "Dividend from subsidiary and associated companies and other equity investments" and "Income from non-trading investments" respectively. In addition, clarification is now made as to how to map the various categories of securities under the alternative or benchmark approaches of SSAP24 onto the respective items of this return.

3. "Exceptional items" and "Extraordinary profit/(loss)"
(Return - Part I existing item 14; Completion instructions – Section B Part I existing item 14 and revised item 16)

"Exceptional items" are no longer catered for to reflect the abolition of "Exceptional items" in SSAP2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" while the definition of "extraordinary profit/(loss)" is revised to bring it fully in line with the SSAP.

4. Dividend income
(Return – Part I items 19.1, 19.2 and 19; Completion instructions – Section B Part I items 3.2, 19.1, 19.2 and 19)

Dividend income is now proposed to be reported on a "declared" basis, as opposed to the "receipt" basis, to bring it in line with SSAP18 "Revenue" which specifies that "dividends should be recognised when a shareholder's right to receive payment is established".

5. A new column on "Country risk provision"
(Return - Part II item 1(c); Completion instructions – Section B Part II item 1)

This change is to facilitate the reporting of country risk provision for AIs which have separately set aside such provision against their cross-border exposures.

6. Interest income (or expenses) arising from securities held (or in short position) for trading purposes
(Completion instructions - Section B Part I items 1.1 and 1.2)

Although most AIs generally report the interest element on such securities under the respective "Interest income" or "Interest expense" items, a few institutions choose to report them under item 3.1 "Income from investments held for trading". To standardise the reporting treatment of these items and facilitate proper comparison of AI's net interest margin, it is now clarified that such items should be reported as interest income or expenses, as the case may be.

7. Amortisation of discounts and premiums of securities held or issued
(Completion instructions – Section B Part I items 1.1 and 1.2)

The change is to clarify that any amortisation of discounts and premiums on securities held by the reporting institution should be reported as "interest income" while any amortisation of discounts and premiums on securities issued by the reporting institution should be reported as "interest expenses".

8. Gains or losses arising from early redemption or disposal of: (i) non-trading investments and (ii) securities issued by the reporting institutions
(Completion instructions - Section B Part I items 3.3 and 6)

Presently, different reporting treatments have been adopted on these items - some AIs take them to interest income/expenses while others take them to investment income or other income. Taking into account their non-recurring nature and to standardise reporting, profits or losses (including unamortised premiums or discounts) arising from early redemption or disposal of non-trading investments should be reported under item 3.3 "Income from non-trading investments" while any gains or losses (including those arising from the remaining unamortised premiums or discounts) on early redemption of securities issued by the reporting institutions should be reported under item 6 "Other income".

9. Unrealised/deferred gains and losses in derivatives
(Completion instructions – Section B Part I item 20)

Clarification is made that reporting institutions are allowed to net off their unrealised/deferred gains and losses in derivatives only where a legally enforceable bilateral netting agreement exists.

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Co. No. PLACE CAT

(For Official Use Only)

under the Banking Ordinance

RETURN OF CURRENT YEAR'S PROFIT & LOSS ACCOUNT

Position of *local office(s)/overseas branches in ..... /local offices and overseas branches (overseas country)

Period from ..... to .....
(first day of the financial year) ~~(last day of the quarter)~~***(31 Mar/ 30 Jun/ 30 Sep/ 31 Dec, as appropriate)***

* Delete where inapplicable. Overseas incorporated institutions are required to report this return showing the profit and loss account of the Hong Kong office(s) only.

Name of Authorized Institution	Date of Submission

The Banking Ordinance

Information requested in this return is required under section 63(2) of the Banking Ordinance to be submitted to the Monetary Authority not later than 21 days after the end of each quarter ending on 31 March, 30 June, 30 September and 31 December, unless otherwise advised by the Monetary Authority. ***For the position of overseas branches in each overseas country, the return should be submitted to the Monetary Authority not later than 1 month after 30 June and 31 December.***

Note: This return is to be prepared in accordance with the completion instructions issued by the Monetary Authority.

We certify that this return is, to the best of our knowledge and belief, correct.

Chief Accountant *Chief Executive*

Name *Name*

Name and telephone number of responsible person who may be contacted by the Monetary Authority in case of any query.

Name *Telephone Number*

I. Profit and loss account

Income		HK$'000	HK$'000
1.1	Interest income		
1.2	Interest expenses		
1.	Net interest income		
2.1A	Gains less losses arising from trading in foreign currencies		
2.1B	Gains less losses arising from non-trading activities in foreign currencies		
2.2	Gains less losses arising from trading in interest rate derivatives		
2.3	Gains less losses arising from trading in other derivatives		
2.	Gains less losses from foreign exchange operations and trading in derivatives		
3.1	***Income from*** investments held for trading		
3.2	Dividend from subsidiary/associated companies and other ***equity*** investments		
3.3	***Income from*** ~~other~~ ***non-trading*** investments		
3.	Income from investments		
4.	Income from fees and commissions		
5.	Profit/(loss) on sale of fixed assets		
6.	Other income		
7.	Total income		

Expenses

8.1	Staff expenses		
8.2	Rental expenses		
8.	Staff and rental expenses		
9.	Other expenses		
10.	Net charge/(credit) for debt provision		
11.	Net charge for other provisions		
12.	Total expenses		

Current profit/(loss)

13.	Operating profit/(loss) before tax ~~and exceptional items~~		
~~14.	Exceptional items~~		
~~15~~ ***14***.	Net charge for tax provision		
~~16~~ ***15***.	Operating profit/(loss) after tax ~~and exceptional items~~		
~~17~~ ***16***.	Extraordinary profit/(loss) net of tax		
~~18~~ ***17***.	Profit/(loss) for the period		

Other information	HK$'000	HK$'000
~~19~~ ***18*** Dividend declared		
~~20.1~~ ***19.1*** Dividend ~~received~~ from licensed bank subsidiaries/associated companies		
~~20.1~~ ***19.2*** Dividend ~~received~~ from RLB/DTC subsidiaries/associated companies		
~~20~~ ***19.*** Total dividend ~~received~~ from authorized subsidiaries/associated companies		
~~21~~ ***20***. Unrealised and deferred losses in derivatives		

II. Provisions

1. Changes in provision for bad and doubtful debts

	Specific (a)	General (b)	***Country risk (c)***
1.1 Previous balance as at _____			
1.2 Adjustments for exchange difference			
1.3 Recoveries			
1.4 New Provisions			
1.5 Amount written off			
1.6 Amount released			
1.7 Other movements			
1.8 Current balance (=sum of 1.1 to 1.7)			

2. Provisions against value of other claims and investment

3. Total provisions (1.8(a)+1.8(b)+***1.8(c)***+2)

4. Gross value of loans against which specific provisions (as shown in 1.8a) have been made

5. Provisions made by the head office/other overseas branches or by the parent company of the reporting institution against the exposures of the reporting institution

	Head office/ overseas branches (a)	Parent company (b)
5.1 General provisions		
5.2 Specific provisions		
5.3 Country risk provisions		
5.4 Total provisions		
5.5 Gross value of assets against which specific provisions (as shown in 5.2(a) and 5.2(b) respectively) have been made		

Completion Instructions

Return of Current Year's Profit & Loss Account
Form MA(BS)1C

Introduction

1. This return collects information on the profit and loss account and provisions of authorized institutions.

Section A: General Instructions

2. The general reporting requirements for authorized institutions incorporated locally and overseas are as follows:

To be reported by	Coverage	Reporting frequency and submission deadline
Institutions incorporated in HK without overseas branches / institutions incorporated outside HK	• 1 return on the position of HK offices	• Quarterly; not later than 21 days after 31 March, 30 June, 30 September and 31 December
Institutions incorporated in HK with overseas branches	• Same as above	• Same as above
	• 1 return each for the position of overseas branches in each overseas country	• ~~Quarterly~~ ***Half yearly***, not later than 1 month after ~~the end of each quarter.~~ ***30 June and 31 December***
	• 1 return on the combined position of Hong Kong and overseas offices	• Quarterly, not later than 6 weeks after the end of each quarter.

3. This return covers the position of a reporting institution from the first calendar day of its financial year to the last calendar day of the current quarter. Institutions whose financial year ends on a date other than 31 March, 30 June, 30 September and 31 December should submit an additional return for the whole financial year not later than 21 days after the end of each financial year, unless otherwise specified by the Monetary Authority. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

4. All entries in this return should be reported on an accrual basis except those relating to assets which must be carried in non-accrual status. To avoid large fluctuation of profit/loss during a financial year, institutions are expected to set aside provisions for major expenditure items such as bad and doubtful debts, tax, depreciation and audit fees at least on a quarterly basis.

5. Institutions should apply consistent accounting policies in compiling this return. Any change in accounting policies (i.e. different to those used for previous returns or the institutions' most recent statutory accounts) should be ~~stated in a covering note with explanation~~ ***notified to the Monetary Authority in writing***.

6. Amounts should be shown to the nearest thousand, in HK$ or HK$ equivalents in the case of foreign currency items. The closing middle market T/T rates prevailing at the end of the current quarter should be used for conversion purpose.

Section B : Specific Instructions

Item Reference	Item
Part I	**Profit & Loss Account**
	Income
1.1	Interest income

Report interest received and accrued interest receivable attributable to the reporting period, ***including those arising from trading securities held. Amortisation of discounts and premiums of securities held by the reporting institution should also be reported under this item.***

Where interest rate related derivatives are used to hedge banking book assets, the net interest arising from the combination of the asset and the hedge should be included. Income from interest rate related derivatives held for purposes other than hedging should be reported under item 2.2.

1.2 Interest expenses

Report interest paid and accrued interest payable attributable to the reporting period***, including those arising from securities short sold for trading purposes. Amortisation of discounts and premiums of securities issued by the reporting institution should also be reported under this item.***

Where interest rate related derivatives are used to hedge banking book liabilities, the net interest arising from the combination of the liability and the hedge should be included. Costs arising from interest rate related derivatives held for purposes other than hedging should be reported under item 2.2.

Item Reference	Item
1.	Net interest income Report the net amount of items 1.1 and 1.2. Where interest expenses exceed interest income, the net figure should be shown in brackets.
2.1 - 2.3	"Trading transactions" for the purposes of items 2.1 - 2.3 of this return mean an institution's proprietary positions in financial instruments which are intentionally held for short term resale and/or which are taken on by the institution with the intention of benefiting in the short term from actual and/or expected differences between buying and selling prices, or from other price or interest rate variations, and positions in financial instruments arising from matched principal brokering and market making, or positions taken in order to hedge other elements of the trading book.
2.1A	Gains less losses arising from trading in foreign currencies Report the realised and unrealised gains less losses for the current financial year from the reporting institution's trading transactions in foreign currencies (which includes dealings in gold) including those from foreign exchange derivatives. Include also all fees and commissions derived from such activities. Where the losses exceed the gains, the net figure should be shown in brackets.
2.1B	Gains less losses arising from non-trading activities in foreign currencies Report the realised and unrealised gains less losses arising from non-trading activities in foreign currencies including fees and commissions derived from such activities. Where the institution is engaged in interest arbitrage dealing (for example, the institution takes a HK dollar deposit and makes a US dollar loan and simultaneously enters into a HK dollar/US dollar forward contract in order to hedge the currency exposure) and does not distinguish between exchange and interest gains or losses on such dealing, the entire amount of the profits or losses concerned should be shown under items 1.1 or 1.2; a profit arising from the transaction should be treated as interest income and a loss as interest expense.
2.2	Gains less losses arising from trading in interest rate derivatives Report the realised and unrealised gains less losses for the current financial year from the reporting institution's trading transactions in interest rate derivatives. Where the losses exceed the gains, the net figure should be shown in brackets.

Item Reference	Item
2.3	Gains less losses arising from trading in other derivatives Report the realised and unrealised gains less losses for the current financial year from the reporting institution's trading transactions in all other derivatives excluding interest rate and foreign exchange derivatives. Where the losses exceed the gains, the net figure should be shown in brackets.
2.	Gains less losses arising from foreign exchange operations and trading in derivatives Report the net amount of items 2.1A, 2.1B, 2.2 and 2.3. Where the total losses exceed the total gains, the net figure should be shown in brackets.
3.1	***Income from*** investments held for trading[1] Report all profit or loss ~~(including revaluation surpluses and deficits)~~ from investments held for trading or dealing purposes. Where derivatives are used to hedge investments held for trading, the net profit or loss arising from the combination of the investment and the hedge should be included.
3.2	Dividend from subsidiary and associated companies and other ***equity*** investments Report the dividends ~~received from~~ ***declared by*** group companies, ~~and~~ associated companies and ~~from~~ other ***equity*** investments ***during the reporting period***.
3.3	***Income from*** ~~other~~ ***non-trading*** investments[2] Report all profits or losses ***(including any remaining unamortised premiums or discounts)*** from sale ***or early redemption*** of all investments ~~except~~ ***other than*** those which qualify for reporting under item 3.1 above. ~~Revaluation surpluses and deficits, if any, from investments held for non-trading purposes are to be reported under this item.~~

For locally incorporated institutions which are required to comply with SSAP24,

[1] the term "investments held for trading" refers to "trading securities" under the alternative treatment or "other investments" under the benchmark treatment.

[2] the term "non-trading investments" refers to "held-to-maturity debt securities" plus : i) "non-trading securities" under the alternative treatment; or ii) "investment securities" under the benchmark treatment. Under the alternative treatment, any change in the fair value of a non-trading investment should not be reported in this item except on disposal or when there is objective evidence that the investment is impaired.

Item Reference	Item
	Where derivatives are used to hedge investments other than those which qualify for items 3.1 and 3.2, the net profit or loss arising from the combination of the investment and the hedge should be included.
3.	Income from investments Report the sum of items 3.1 to 3.3. For the purposes of this item, "investments" include shares and debt instruments held by the reporting institutions.
4.	Income from fees and commissions This includes charges, fees and commissions received by the reporting institution in respect of services such as credit lines, corporate advice, investment management and trustee services, guarantees and indemnities etc. provided by it to customers.
5.	Profit/(loss) on sale of fixed assets Report the profit or loss on the sale of fixed assets of the reporting institution, e.g. premises and equipment.
6.	Other income Report all other income arising from ordinary activities but which ~~do not qualify as exceptional items and~~ are not elsewhere included. This should include any income or expenses arising from derivatives positions which do not qualify for inclusion within items 1, 2 or 3 above. Where the expenses exceed income, the net figure should be shown in brackets. ***For securities issued by the reporting institution, net gains or losses (including those arising from the remaining unamortised premiums or discounts) on early redemption of such securities shall be reported under this item.***
7.	Total income Report the sum of items 1 to 6.
	Expenses
8.1	Staff expenses This includes salaries, employer's contribution to pension schemes and provident fund, and cost of other staff benefits. It also includes directors' emoluments.

Item Reference	Item
8.2	Rental expenses This includes expenses on occupancy such as rents, rates, insurance of premises, depreciation cost of premises, lighting, heating and maintenance costs etc. Expenses for staff housing benefit schemes should be included under item 8.1.
9.	Other expenses This includes depreciation cost of equipment, audit fees and all other expenses ~~which do not qualify as exceptional items and~~ which are not elsewhere included.
10.	Net charge/(credit) for debt provision Report net amount charged or credited to the profit and loss account during the reporting period in respect of provisions for bad and doubtful debts and bad debt recoveries. The amount reported for this item should be the same as the net amount of items 1.4 and 1.6 of Part II, save for any exchange differences.
11.	Net charge for other provisions Report amount provided less amount recovered for other provisions in the reporting period.
12.	Total expenses Report the sum of items 8 to 11.
	Current profit/(loss)
13.	Operating profit/(loss) before tax ~~and exceptional items~~ Report the net amount of items 7 and 12. Where total expenses exceed total income, the net figure should be shown in brackets.
~~14.~~	~~Exceptional items~~ ~~Report all exceptional income and expense, other than those already included under items 3.3 or 5, arising from ordinary activities that are of such a size, nature or incidence that disclosure is relevant to explain the performance over the period. This should include any income or expense arising from restructuring of activities, discontinued operations or litigation settlements.~~

Item Reference	Item
~~15~~ ***14.***	Net charge for tax provision Report the net charge for tax provision in the reporting period.
~~16~~ ***15.***	Operating profit/(loss) after tax ~~and exceptional items~~ Report the difference between item***s*** 13 and ~~the sum of item~~ 14 ~~and 15~~.
~~17~~ ***16***.	Extraordinary profit/(loss) net of tax Report all extraordinary profit or loss ***that arise from events or transactions that are clearly distinct from the ordinary activities of the institution and therefore are not expected to recur frequently or regularly***. ~~not arising from the ordinary course of business, net of tax.~~ Include for example any loss on the expropriation of assets or arising from a natural catastrophe.
~~18~~ ***17.***	Profit/(loss) for the period Report the total of items ***15 and*** 16 ~~and 17~~.
	Other information
~~19~~ ***18.***	Dividend declared Report all dividends declared ~~in the current financial year~~ ***during the reporting period***. Dividends attributable to profits earned in previous years should be included if these were declared ~~in the current financial year~~ ***during the reporting period.***
~~20.1~~ ***19.1***	Dividends ~~received~~ from licensed bank subsidiaries/associated companies Report all dividends ~~received from~~ ***declared by*** subsidiaries and associated companies which are ~~themselves fully~~ licensed banks ***during the reporting period.***
~~20.2~~ ***19.2***	Dividends ~~received~~ from RLB/DTC subsidiaries/associated companies Report all dividends ~~received from~~ ***declared by*** subsidiaries and associated companies which are ~~themselves~~ restricted licence banks or deposit taking companies ***during the reporting period***.

Item Reference	Item
~~20~~ ***19.***	Total dividends ~~received~~ from authorized subsidiaries/associated companies Report the total of items ~~20.1~~ ***19.1*** and ~~20.2~~ ***19.2 and the sum should be equal to or smaller than item 3.2.***
~~21~~ ***20.***	Unrealised and deferred losses in derivatives Report any unrealised losses on derivatives which have not been taken to the profit and loss account and any amount of realised losses on derivatives contracts that have been deferred as at the end of the reporting period. ***Any unrealised or deferred gains on derivatives should not be netted off unless a legally enforceable bilateral netting agreement exists.***
Part II	**Provisions**
1.	Changes in provision for bad and doubtful debts Any provisions charged/credited to the profit and loss account including recoveries and write-offs should be reported in this Part. Institutions which have the practice of crediting recoveries and debiting write-offs directly to the profit and loss account without going through the provision for bad and doubtful debts account should take note of the reporting instructions for items 1.3 and 1.5 below. For the purposes of this part, "bad and doubtful debts" include loans and advances, claims on banks (other than holdings of debt securities issued by them), bills receivable, bills discounted and purchased. They include also accrued interest on these items. ***Country risk provisions generally refer to provisions set aside by authorized institutions to absorb potential losses arising from their country risk exposures. If institutions reflect country risk in provisions earmarked against their aggregate exposure to a particular country after accounting for risk transfer and specific provision made against credit risk (i.e. on a country basis), such provision should be reported under the column of "Country risk (c)". If institutions do not separately set aside country risk provisions but factor in an element of provision for country risk into specific provisioning for each individual exposure (i.e. on an individual obligor basis), such provision should be reported under the column of "Specific (a)".***
1.1	Previous balance The date to be inserted in the space provided should be the last day of the previous financial year.

Item Reference	Item
	Report the balance outstanding in the specific ~~(country debt provisions included)~~, general and ***country risk*** provisions accounts as at the last day of the previous financial year. The amounts should be the same as those reported under items 1.8(a), (b) and ***(c)*** of this part as at the end of the previous financial year. It is recognised that institutions often have the need to make adjustments to these reported figures, typically upon the finalisation of annual financial statements. In such case, the amounts to be reported should be the revised amounts instead of the amounts shown in the earlier return(s). Institutions which have made the adjustments should provide the Monetary Authority with amendments to the earlier return(s) at or before the time of submitting the return for the current quarter.
1.2	Adjustments for exchange difference Report any increase or decrease in the opening balances resulting from the conversion into HK$ of any portion of the balances which is denominated in a foreign currency.
1.3	Recoveries Report recoveries of amounts previously written off against which a provision has been made or where a provision has been reinstated for an amount that has been previously written off. The release of the amounts to the profit and loss account should pass through item 1.6 below.
1.4	New provisions Report the amount charged to the profit and loss account during the reporting period in respect of new provisions.
1.5	Amount written off Report the amount of debts which were written off in the reporting period. Where no provision had been established for the debts in question, an entry equal to the amount that has been written off should be reported as new provisions under item 1.4 at the same time.
1.6	Amount released Report any amount which is no longer required as provisions and which has been released back to the profit and loss account during the reporting period.

Item Reference	Item
1.7	Other movements Report all other movements of provisions not included in items 1.3 to 1.6.
1.8	Current balance Report in 1.8(a), (b) and ***(c)*** the current balances of specific, general and ***country risk*** provisions respectively.
2.	Provisions against value of other claims and investment Report all provisions other than those reported in item 1.8.
3.	Total provisions This is the total of items 1.8(a), (b), ***(c)*** and 2. The amount reported should agree with the sum of amount reported in item 24 of Form MA(BS)1 (or, item 20 of Form MA(BS)1A and Item 23 of Form MA(BS)1B, as the case may be.)
4.	Gross value of loans against which specific provisions have been made Report the gross book value as at the end of the reporting quarter of all exposures against which specific provisions have been made. The gross value of loans should not include accrued interest which has been capitalised but credited to interest in suspense account.
5.	Provisions made by head office/other overseas branches or by the parent company of the reporting institution against the exposures of the reporting institution Report provisions made in the books of the overseas head office or other overseas branches or by the parent company of the reporting institution in respect of the bad and doubtful debts of the reporting institution. Those institutions which do not presently establish provisions in their own books are expected to maintain the provisions on their own as far as possible.

Hong Kong Monetary Authority
(MM/2003)