

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:

<u>To be reported by</u>	<u>Coverage</u>	<u>Reporting frequency and submission deadline</u>
Institutions incorporated in HK without overseas branches / institutions incorporated outside HK	• 1 return on the position of HK offices	• Quarterly; not later than <u>21 days</u> after 31 March, 30 June, 30 September and 31 December
Institutions incorporated in HK with overseas branches	• Same as above • 1 return each for the position of overseas branches in each overseas country • 1 return on the combined position of Hong Kong and overseas offices	• Same as above • <i>Half yearly</i>, not later than <u>1 month</u> after <i>30 June and 31 December</i> • Quarterly, not later than <u>6 weeks</u> 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 ***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.
7. As stipulated in our guidance note "Review on Impact of the New Hong Kong Accounting Standards on Authorized Institutions' Capital Base and Regulatory Reporting" issued to all AIs on 12 April 2005, locally incorporated AIs and overseas-incorporated AIs whose head offices have chosen to adopt IFRS or comparable standards shall neglect any reference made thereto in this return on "interest in suspense" and "country risk provision".
8. Specific provisions and general provisions mentioned in this completion instruction should follow the definitions of specific provisions and collective provisions defined in section 2(1) of the Banking (Capital) Rules respectively. The categorisation of accounting provisions into specific provisions or general provisions follows the treatment adopted in MA(BS)3.

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 **positions held** 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.

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.

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 trading¹

¹ The term "investments held for trading" refers to investments and loans and advances measured at fair value through profit or loss under HKFRS 9 or equivalent accounting standard. Financial assets designated at fair value through profit or loss shall also be included.

Report all profit or loss 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 ***declared by*** group companies, associated companies and other equity investments ***during the reporting period.***

3.3 Income from non-trading investments²

Report all profit or loss (including any remaining unamortised premiums or discounts) from ~~sale or early redemption~~ derecognition (e.g. sale, early redemption, modifications that result in derecognition) of all investments other than those which qualify for reporting under item 3.1 above.

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.

Report the net income from fees and commissions. Where fee and commission expenses exceed fee and commission income, the net figure should be shown in brackets.

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. Gains and losses arising from disposal of leasehold land for own use should be reported under this item. Gains and losses arising from disposal of investment properties should be reported under item 6.

² The term "non-trading investments" refers to investments measured at "amortised cost" or "fair value through other comprehensive income" under HKFRS 9 or equivalent accounting standard.

6. Other income

Report all other income but which 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 and other charges

8.1 Staff expenses

This includes all employee benefits (including short-term employee benefits such as wages and salaries, post employment benefits such as pensions and other retirement benefits, other long-term employee benefits and termination benefits etc.) and directors' emoluments.

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 are not elsewhere included.

10. Net charge/(credit) for debt provision³

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, 1.6 and 1.7 of Part II, save for any exchange differences.

³ Item 10 includes net charge/(credit) in both general provisions and specific provisions.

11. Net charge for other provisions

Report amount provided less amount recovered for other provisions in the reporting period.

11A. Deficit/(surplus) on revaluation of land and buildings

Report the net deficit/(surplus) on revaluation of bank premises and investment properties.

A deficit arising on revaluation of bank premises should be charged to the profit and loss account if and to the extent that it exceeds the amount held in the bank premises revaluation reserve in respect of that same asset immediately prior to the revaluation. Where there is a surplus arising on revaluation, it should be credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account in respect of that same asset.

Deficits and surpluses arising on revaluation of investment properties should be recognised on a portfolio basis. A net deficit should be first set off against the investment property revaluation reserve⁴ and thereafter charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus should be credited to the profit and loss account to the extent of the deficit previously charged.

11B. Impairment loss/(reversal of impairment loss) on assets

Report the net amount of impairment loss/(reversal of impairment loss)⁵ on bank premises, investment properties and other assets (such as equipment, fixtures and fittings). An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

⁴ Locally incorporated authorized institutions shall neglect the reporting treatment in relation to investment property revaluation reserve. Instead, the fair value gains and losses arising from investment properties should be report under item 11A. Overseas incorporated authorized institutions which adopt accounting standards relevant to their home country and record investment property revaluation reserve in their books should report the movement in investment property revaluation reserve according to the completion instructions for item 11A.

⁵ Please refer to HKAS 36 for the accounting treatment of impairment loss.

12. Total expenses and other charges

Report the sum of items 8 to 11B.

Current profit/(loss)

13. Profit/(loss) before tax

Report the net amount of items 7 and 12. Where total expenses exceed total income, the net figure should be shown in brackets.

14. Net charge for tax provision

Report the net charge for tax provision in the reporting period.

15. Profit/(loss) after tax

Report the difference between items 13 and 14.

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. Include for example any loss on the expropriation of assets or arising from a natural catastrophe.

17. Profit/(loss) for the period

Report the total of items 15 and 16.

Other information

18. Dividend declared

Report all dividends declared during the reporting period. Dividends attributable to profits earned in previous years should be included if these were declared during the reporting period.

19.1 Dividend from licensed bank subsidiaries/associated companies

Report all dividends declared by subsidiaries and associated companies which are licensed banks during the reporting period.

19.2 Dividend from RLB/DTC subsidiaries/associated companies

Report all dividends declared by subsidiaries and associated companies which are restricted licence banks or deposit-taking companies during the reporting period.

19. Total dividend from authorized institution subsidiaries/associated companies

Report the total of items 19.1 and 19.2 and the sum should be equal to or smaller than item 3.2.

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.

Report the balance outstanding in the specific, 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 1.9(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.

1.4A Net provisions arising from new financial assets originated or acquired

This includes the amount charged to the profit or loss arising from new financial assets originated or purchased (net of repayments made on these financial assets during the reporting period). Increases or decreases in provisions due to changes in credit risk subsequent to initial recognition shall be reported under item 1.4B or item 1.6A.

1.4B Increase in provisions arising from changes in credit risk

Report the increase in provisions arising from change in credit risk of existing financial assets, e.g., transfer from 12-month to lifetime expected credit loss stage, updates of risk parameters (such as probability of default, loss given default), modifications of contractual cash flows of financial assets without derecognition, changes in forward looking economic data and the weighting for respective forward looking scenarios.

1.4C Others

Report new provisions arising from any other factor not included in 1.4A, 1.4B or 1.7.

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 1.4B 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.

1.6A Release of provisions arising from changes in credit risk

Report the provisions released which arise from change of credit risk of existing financial assets, e.g., transfer from lifetime to 12-month expected credit loss stage, updates of risk parameters (such as probability of default, loss given default), repayments of financial assets, modifications of contractual cash flows of financial assets without derecognition, changes in forward looking economic data and the weighting for respective forward looking scenarios.

1.6B Others

Report the provisions released which arise from derecognition of financial assets (except for repayments reported under item 1.6A and amounts written off reported under item 1.5) and any other factor not included in item 1.6A or item 1.7. This item also includes recoveries of amounts previously written off against which a provision has been made.

1.7 Net charge / release due to changes in estimation methodology

Report any net charge / release to the profit and loss account during the reporting period which arises from changes in the methodology for estimation of provisions. This shall include changes in the existing methodology (e.g. model assumptions) or the use of new methodology. However, changes arising from updates of risk parameters (such as probability of default, loss given default) and changes in forward looking economic data and the weighting for respective forward looking scenarios shall be reported under item 1.4 or item 1.6.

1.8 Other movements

Report all other movements of provisions not included in items 1.3 to 1.7, for

example, unwinding of discounts.

1.9 Current balance

Report in items 1.9(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 1.9.

3. Total provisions

This is the total of items 1.9(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.