

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>Coverage</u>	<u>Reporting frequency and submission deadline</u>
Institutions incorporated in HK <i>without overseas branches</i> / institutions incorporated outside HK	<ul style="list-style-type: none">• 1 return on the position of HK offices	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Same as above• Quarterly; not later than <u>1 month</u> after the end of each quarter.• 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 stated in a covering note with explanation.
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.

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.

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<u>Reference</u>	<u>Item</u>
1.2	<p><u>Interest expenses</u></p> <p>Report interest paid and accrued interest payable attributable to the reporting period.</p> <p><i>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.</i></p>
1.	<p><u>Net interest income</u></p> <p>Report the net amount of items 1.1 and 1.2. Where interest expenses exceed interest income, the net figure should be shown in <u>brackets</u>.</p>
2.1 - 2.3	<p><i>"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.</i></p>
2.1A	<p><u>Gains less losses arising from trading in foreign currencies</u></p> <p><i>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.</i></p>

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Reference

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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.

<u>Item Reference</u>	<u>Item</u>
3.1	<p><u>Investments held for trading</u></p> <p>Report all profit or loss (including revaluation surpluses and deficits) from investments held for trading or dealing purposes.</p> <p><i>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.</i></p>
3.2	<p><u>Dividend from subsidiary and associated companies and other investments</u></p> <p>Report the dividends received from group companies and associated companies and from other investments.</p>
3.3	<p><u>Other investments</u></p> <p>Report all profits or losses from sale of all investments except those which qualifies for reporting under item 3.1 above. <i>Revaluation surpluses and deficits, if any, from investments held for non-trading purposes are to be reported under this item.</i></p> <p><i>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.</i></p>
3.	<p><u>Income from investments</u></p> <p>Report the sum of items 3.1 to 3.3. <i>For the purposes of this item, "investments" include shares and debt instruments held by the reporting institutions.</i></p>
4.	<p><u>Income from fees and commissions</u></p> <p>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.</p>

<u>Item Reference</u>	<u>Item</u>
5.	<p><u>Profit/(loss) on sale of fixed assets</u></p> <p>Report the profit or loss on the sale of fixed assets of the reporting institution, e.g. premises and equipment.</p>
6.	<p><u>Other income</u></p> <p>Report all other income <i>arising from ordinary activities but which do not qualify as exceptional items and are</i> not elsewhere included. <i>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.</i></p>
7.	<p><u>Total income</u></p> <p>Report the sum of items 1 to 6.</p>
	<p><u>Expenses</u></p>
8.1	<p><u>Staff expenses</u></p> <p>This includes salaries, employer's contribution to pension schemes and provident fund, and cost of other staff benefits. It also includes <i>directors'</i> emoluments.</p>
8.2	<p><u>Rental expenses</u></p> <p>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.</p>
9.	<p><u>Other expenses</u></p> <p>This includes depreciation cost of equipment, audit fees and all other expenses <i>which do not qualify as exceptional items and which are</i> not elsewhere included.</p>

<u>Item Reference</u>	<u>Item</u>
10.	<p><u>Net charge/(credit) for debt provision</u></p> <p>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.</p> <p>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.</p>
11.	<p><u>Net charge for other provisions</u></p> <p>Report amount provided less amount recovered for other provisions in the reporting period.</p>
12.	<p><u>Total expenses</u></p> <p>Report the sum of items 8 to 11.</p>
	<p>Current profit/(loss)</p>
13.	<p><u>Operating profit/(loss) before tax <i>and exceptional items</i></u></p> <p>Report the net amount of items 7 and 12. Where total expenses exceed total income, the net figure should be shown in <u>brackets</u>.</p>
14.	<p><u>Exceptional items</u></p> <p><i>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.</i></p>
15.	<p><u>Net charge for tax provision</u></p> <p>Report the net charge for tax provision in the reporting period.</p>

Item
Reference

Item

16. Operating profit/(loss) after tax *and exceptional items*

Report the difference between item 13 and *the sum of* item 14 *and* 15.

17. Extraordinary profit/(loss) net of tax

Report all extraordinary profit or loss 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. Profit/(loss) for the period

Report the total of items *16* and *17*.

Other information

19. Dividend declared

Report all dividends declared in the current financial year. Dividends attributable to profits earned in previous years should be included if these were declared in the current financial year.

20.1 Dividends received from licensed bank subsidiaries/associated companies

Report all dividends received from subsidiaries and associated companies which are themselves fully licensed banks

20.2 Dividends received from RLC/DTC subsidiaries/associated companies

Report all dividends received from subsidiaries and associated companies which are themselves restricted licence banks or deposit taking companies.

20. Total Dividends received from authorized subsidiaries/associated companies

Report the total of items 20.1 and 20.2

21. 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.

Item

Reference Item

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.*

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 (country debt provisions included) and general 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) and (b) of this part as at the end of the previous financial year.

It is recognized that institutions often have the need to make adjustments to these reported figures, typically upon the finalization 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.

Item
Reference Item

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.

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) and (b) the current balances of specific and general provisions respectively.

2. Provisions against value of other claims and investment

Report all provisions other than those reported in item 1.8.

Item
Reference

Item

3. Total provisions

This is the total of items 1.8(a), (b) 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.