Quarterly Return of Mainland Activities
For Position of the Hong Kong Office(s), Mainland Branch(es)
and Mainland Subsidiary Bank(s)
of an Authorized Institution

Completion Instructions

Introduction

1. This statutory return collects information on the Mainland-related business activities of authorized institutions and their Mainland bank subsidiaries. The scope of reporting covers activities booked in the Hong Kong office(s), Mainland branch(es) and subsidiary bank(s) in Mainland China.

General instructions

2. This return is divided into 8 parts and reporting institutions should complete all parts.

   - Part 1. Abridged balance sheet for position of the subsidiary bank(s) in Mainland China
   - Part 2. Current year's profit and loss account for position of the subsidiary bank(s) in Mainland China
   - Part 3. Type and counterparty breakdown of non-bank Mainland China exposures
   - Part 4. Geographical breakdown of non-bank Mainland China exposures
   - Part 5. Economic sector breakdown of non-bank Mainland China exposures
   - Part 6. Classification of Mainland-related loans and advances
   - Part 7. Ten largest non-bank Mainland China exposures
   - Part 8. Risk mitigation breakdown of selected non-bank Mainland China exposures

3. Reporting institutions should submit this return via STET not later than 6 weeks after the end of March, June, September and December each year. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

4. Report the position as at the last calendar day of the reporting period except for the current year's profit and loss account of subsidiary bank(s) in Mainland China, which should cover the position from the first calendar day of the reporting bank's financial year to the last calendar day of the current reporting period.

5. Amounts should be reported to the nearest thousand in HK$ or HK$ equivalent. The closing middle market T/T rates should be used for conversion purposes.

6. 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".

7. 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.

Specific instructions

Part 1: Abridged balance sheet for position of the subsidiary bank(s) in Mainland China

8. Unless otherwise specified, the reporting of Part 1 should follow the same treatment as in the Return of Assets and Liabilities (MA(BS)1,1A and 1B).

9. Except where otherwise stated, book value should be used. Report figures on an accrual basis and report the gross position (i.e. do not net off assets and liabilities). Total liabilities must equal total assets less provisions.

Capital and reserves

10. "Paid-up capital" should be reported at the nominal paid-up value.

11. "Reserves" include retained earnings, general reserves, revaluation reserves and share premium accounts but exclude provisions. The amount to be included shall be net of any dividend paid or declared out of retained earnings on or before the reporting date. Accumulated losses, if any, should also be reported.

12. "Current profits/losses" refers to any balance in the current year's profit and loss account (which should be the same as the amount reported in item 19 of Part 2) less any dividend which has been paid or declared (i.e. on or before the reporting date) out of the current year's profit.

Capital-type instruments

13. Report all capital-type instruments including loan capital.

Deposits from customers

14. Report all deposit liabilities due to parties other than banks and other authorized institutions (AIs). Exclude negotiable debt instruments issued. Such amounts should be reported separately under "negotiable debt instruments issued and outstanding". Exclude also cash margins which do not form part of the savings, current or other deposit accounts. Such amounts should be reported as "other liabilities". When reporting deposits with embedded derivative contract, the value of the deposit leg before adjusting the effect of fair value on the embedded derivative contract should be reported under this item while the fair value of the embedded derivative contract should be reported under "other liabilities" or "other assets" as appropriate.

Negotiable debt instruments issued and outstanding / held

15. Report the nominal value of negotiable certificates of deposits and other negotiable debt instruments, which include negotiable securities other than shares and stocks. If the reporting bank's own negotiable debt instruments are being repurchased, whether for trading or market-making purposes, they should be netted off from "negotiable debt instruments issued and outstanding". The difference between the nominal value and the book value should be reported as "other liabilities" or "other assets" as appropriate.

Other liabilities

16. Report all other liabilities that have not been reported elsewhere.

Placement with The People's Bank of China

17. Placement with The People's Bank of China in excess of the deposit reserve requirements should be reported as "other placement".

Loans and advances to customers

18. Report all loans and advances to customers other than banks and other AIs in gross amount before provisions. Holdings of debt instruments which are not negotiable should be regarded as loans and advances. Exclude holdings of negotiable bills accepted or payable by banks or non-banks which should be reported as "negotiable debt instruments held".

Investments

19. "Investment in shareholdings" captures all holdings of share capital of any other company (i.e. excluding those held as collateral for a loan or advance) owned by the Mainland subsidiary bank(s). This also includes

the holdings of capital instruments (e.g. perpetual subordinated debts) and unit trusts which are established specially for investment in shares. Investment in shares not for strategic purpose (e.g. for trading purposes) should be reported as other investments (i.e. "Others").

Part 2: Current year's profit and loss account for position of the subsidiary bank(s) in Mainland China

20. Unless otherwise specified, the reporting of Part 2 should follow the same treatment as in the Return of Current Year's Profit & Loss (MA(BS)1C).

21. Report the position from the first calendar day of the financial year to the last calendar day of the current reporting period.

Interest income

22. 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 bank should also be included.

23. 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 also be included as interest income.

24. Where the reporting bank is engaged in interest arbitrage dealing 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 reported as interest income or interest expenses as the case may be. A profit arising from the transaction should be treated as interest income and a loss as interest expenses.

Interest expenses

25. 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 premium of securities issued by the reporting bank should also be included.

26. 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 as interest expenses.

Income from trading activities

27. Trading activities mean the reporting bank's proprietary positions in financial instruments which are intentionally held for short term resale and / or which are taken on by the reporting bank 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.

28. The following items should be included:

    1. realised and unrealised gains less losses (or income less costs) for the current financial year from the reporting bank's foreign exchange operations and trading in other derivatives;
    2. profit or loss from equity or debt instruments held for trading or dealing purposes;
    3. net profit or loss arising from the combination of the instrument and the hedge in the cases where derivatives are used to hedge instruments held for trading; and
    4. all fees and commissions derived from trading activities.

29. In the cases where the losses exceed the gains or the costs exceed the income, the net figure should be reported as negative values.

Income from non-trading activities and investments

30. The following items should be included:

    - realised and unrealised gains less losses (or income less costs) arising from non-trading activities in derivatives and foreign exchange, and equity and debt instruments held by the reporting bank for non-trading purposes;
    - profit and loss (including any remaining unamortised premiums or discounts) from derecognition (e.g. sale, early redemption, modifications that result in derecognition) of all equity and debt instruments other than those held for trading;
    - net profit or loss arising from the combination of the instrument and the hedge in the cases where derivatives are used to hedge non-trading instruments;
    - fees and commissions derived from non-trading activities and investments; and
    - dividends declared by group companies, associated companies and other equity investments during the reporting period. For the avoidance of doubt, dividends attributable to profits earned in

previous years should be included if these were declared during the reporting period.

Part 3: Type and counterparty breakdown of non-bank Mainland China exposures

Non-bank Mainland China exposures (NBMCE)

31. NBMCE refer to exposures of the reporting institution to the seven categories of counterparty set out in paragraph 40 below.

32. Report direct exposures, which are exposures to non-bank counterparties that are directly liable to the reporting institution as principals.

33. Report the gross outstanding amount of non-bank Mainland China exposures before deduction of provisions. Accrued interest, if any, on an exposure should also be reported. However, any accrued interest which has not been recognised in the profit and loss account but credited as interest in suspense should be netted off against the corresponding amount of interest in suspense whether or not it has been capitalised.

34. On-balance sheet exposures should be split into "loans and advances", "negotiable debt instruments" and "others". The breakdown of plain vanilla negotiable debt instruments should be provided as a memorandum item. Off-balance sheet exposures should be split into "contingent liabilities", "irrevocable undrawn commitments' and "foreign exchange and derivatives contracts".

35. The proportion of on-balance sheet non-bank Mainland China exposures to total assets after provisions should also be reported.

36. "Contingent liabilities" refer to any potential liabilities of the reporting institution that may arise from guarantees, letters of credit, etc, issued by it.

37. "Irrevocable undrawn commitments" refer to commitments which the reporting institution is obliged to honour under all circumstances.

38. "Foreign exchange and derivatives contracts" are contracts with positive value to the reporting institution at replacement cost. "Foreign exchange contracts" include cross-currency swaps, forward foreign exchange contracts, currency futures and foreign exchange options purchased.

39. Total on-balance sheet exposures reported under geographical location breakdown in Part 4 as well as on-balance sheet loans and advances reported under economic sector breakdown in Parts 5 and 8 should tally

with the same items reported under the type and counterparty breakdown in Part 3.

Breakdown by non-bank counterparty

40. Exposures to non-bank counterparties should be categorised in the following order of reporting priority. The same principle applies to counterparties with multiple shareholders.

    1. Central government, central government-owned entities and their majority-owned subsidiaries and majority-owned joint ventures (JVs) incorporated in or outside Mainland China.
    2. Local governments, local government-owned entities and their majority-owned subsidiaries and majority-owned joint ventures incorporated in or outside Mainland China.
    3. The People's Republic of China (PRC) nationals residing in Mainland China whether the credit is for use in or outside Mainland China or other entities incorporated in Mainland China including those that are minority-owned by central or local governments. Majority-owned subsidiaries and majority-owned JVs of "other entities incorporated in Mainland China" and incorporated outside Mainland China should also be included.
        3.1 Of which, PRC nationals residing in Mainland China or entities with ultimate beneficial ownership held by Mainland interest other than the central and local governments. If the ultimate beneficial ownership cannot be established after reasonable efforts have been made, AIs can determine on a best effort basis whether the borrower is ultimately owned by Mainland interest.
    4. Other entities incorporated outside Mainland China and minority-owned by the central government not reported in item 1 above.
    5. Other entities incorporated outside Mainland China and minority-owned by the local governments not reported in item 2 above.
    6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China other than those reported under items 1 to 5 where the credit is granted for use in Mainland China. For avoidance of doubt, credit granted for use outside Mainland China to PRC nationals residing outside Mainland China is outside the reporting scope of this return.
    7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures.

41. Central government-owned entities refer to the entities owned by the central government, including but not limited to those on the list of central government-owned entities (央企) published by the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).

42. Local governments refer to governments other than the central government. Examples of local governments are provincial governments, municipal governments, etc.

43. Majority-owned subsidiaries and majority-owned JVs refer to entities majority-owned or controlled (i.e. controlling larger than 50% shareholdings or voting rights) by the parent company.

44. Examples of exposures to entities incorporated outside Mainland China where the credit is granted for use in Mainland China include loans to finance a specific building or manufacturing plant construction project in Mainland China, trade finance facilities known to be for imports to or exports from the Mainland.

45. The reporting item "Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures" is intended to be a residual item not captured under other categories of counterparty.

46. Loans for use as general working capital or revolving credit facilities where the loan usage is not specified should be classified according to the principal place of business of the borrower.

Part 4. Geographical breakdown of non-bank Mainland China exposures

47. Report the geographical breakdown of all on-balance sheet non-bank Mainland China exposures as indicated. Loans and advances should be categorised according to the loan usage. In cases where the usage of a loan cannot be identified with reasonable certainty (e.g. working capital loan), it should be classified according to the principal place of business of the borrower. Instruments such as negotiable debt instruments should similarly be categorised according to the location of issuers' principal place of business.

Part 5. Economic sector breakdown of non-bank Mainland China exposures

48. Report the breakdown of the on-balance sheet loans and advances for use in Mainland China according to loan usage as indicated. Refer to the Completion Instructions for the Return of Loans and Advances and Provisions (MA(BS)2A) for the definitions of individual economic sectors.

Part 6: Classification of Mainland-related loans and advances

49. Report the classification of on-balance sheet loans and advances according to the classification criteria of the HKMA's guideline on loan classification. The "Total" on-balance sheet loans and advances figures reported under "Item 6" in Part 6 should reconcile with the corresponding "Total" figures reported under "Item 1.1" in Part 3.

50. Classified loans refer to loans classified as "substandard", "doubtful" and "loss". The amount of specific provisions and the current market value of the collateral should be reported separately.

Part 7. Ten largest non-bank Mainland China exposures

51. Report the ten largest exposures on an aggregate basis, i.e. on-balance sheet plus off-balance sheet non-bank exposures, as at the reporting date and the proportion of total on-balance sheet exposures to the reporting institution's total assets after provisions.

52. Each reported item should be the aggregate exposures to an individual counterparty or a group of ~~related~~linked counterparties. In the latter case, the aggregate should be reported as one exposure under the name(s) of the principal counterpart(ies). For the definition of "~~A~~a group of ~~related~~linked counterparties", references should be made to ~~refer to parties which are connected in such a way that the financial soundness of any of them may affect the financial soundness of the others. For details, refer to paragraph 5(i) of~~ the Completion Instructions of the Return of Large Exposures (MA(BS)~~1D~~28).

53. Ten largest exposures on an aggregate basis, i.e. on-balance sheet plus off-balance sheet non-bank exposures as at the reporting date to PRC nationals residing in Mainland China or entities beneficially-owned by Mainland interest as reported in item 3.1 of Part 3 and the proportion of total on-balance sheet exposures to the reporting institution's total assets after provisions should also be reported.

Part 8. Risk mitigation breakdown of selected non-bank Mainland China exposures

54. Report the risk mitigation breakdown for total on-balance sheet loans and advances included as non-bank Mainland China exposures under the counterparty breakdown in Part 3.

55. Risk mitigation position for on-balance sheet loans and advances to PRC nationals residing in Mainland China or entities beneficially-owned by Mainland interest as reported in item 3.1 of Part 3 should also be reported.

56. Report the amount based on the type of risk mitigation features. Loans should be reported using the following ranking order: fully collateralised loans, loans with full guarantee from banks, partially collateralised loans, loans with full non-bank guarantee and unsecured.

57. An indication of obligation covering an exposure such as letter of indemnity, letter of comfort or letter of undertaking that is considered equivalent to a guarantee by the reporting institution can be treated as a guarantee for reporting purpose.

58. In the case where the loan amount is less than the value of the collateral or the amount of bank or non-bank guarantees, only the loan amount should be reported.

59. In the case where the loan amount exceeds the value of the collateral or the amount of bank or non-bank guarantees, the exceeded amount should be treated as unsecured.

60. For loans with full collateral, report the loan value based on the following type and order of collateral: pledged deposits, properties, debt securities, shares and other assets. For example, if the outstanding loan amount is HK$100,000 and the loan is collateralised with pledged RMB deposits (HK$40,000), properties (value after applying haircut / loan-to-value ratio: HK$20,000) and shares (value after applying haircut / loan-to-value ratio: HK$80,000), the reporting should be as follows: 40 under "pledged deposits", 20 under "properties" and 40 under shares.

61. For loans with partial collateral, the loan should first be reported in the order of collateral type as specified. The remaining balance (i.e. the outstanding loan net of collateral) should be split into guarantee from banks, guarantees from non-banks and the remaining loan balance. For example, if the outstanding loan amount is HK$100,000 and the loan is collateralised with pledged RMB deposits (HK$40,000), properties (value after applying haircut / loan-to-value ratio: HK$20,000), bank guarantees (HK$10,000) and non-bank guarantees (HK$10,000), the reporting should be as follows: 40 under pledged RMB deposits, 20 under properties, 10

under bank guarantees, 10 under non-bank guarantees and 20 as unsecured.

62. Loans secured by collateral and non-bank guarantees should be reported as partially secured. For example, if the outstanding loan amount is HK$100,000 and the loan is collateralised with pledged RMB deposits (HK$40,000), properties (value after applying haircut / loan-to-value ratio HK$20,000) and non-bank guarantees (HK$40,000), the reporting should be as follows: 40 under pledged RMB deposits, 20 under properties, 40 under non-bank guarantees.

63. In the case where the loan is granted based on bank guarantees and non-bank guarantees, the loan should be also reported as partially collateralised loans with the respective amount of bank guarantees and non-bank guarantees being reported. For example, if the outstanding loan amount is HK$100,000 and the loan is supported by Mainland bank guarantees (HK$40,000), non-Mainland bank guarantees (HK$20,000) and non-bank guarantees (HK$30,000), the reporting should be as follows: 40 under Mainland bank guarantees, 20 non-Mainland bank guarantees, 30 under non-bank guarantees and 10 under "remaining loan balance (i.e. unsecured portion)".

64. Unsecured loans refer to clean loans without collateral, bank guarantees as well as non-bank guarantees.

65. The amount of loans and advances supported by bank guarantees issued by wholly-owned subsidiary banks without backing by collateral such as deposits pledged to the subsidiary banks should be treated as an unsecured amount.

66. Exposures with guarantees from the central government, central government-owned entities and their subsidiaries and JVs, from the local governments, local government-owned entities and their subsidiaries and JVs, and from PRC nationals residing in Mainland China or private enterprises incorporated in Mainland China and their subsidiaries and JVs should be reported separately as memorandum items. Exposures with intragroup bank guarantees should be provided as a separate memorandum item as well.

Hong Kong Monetary Authority
September 2013

Revised:
December 2013
January 2018
October~~January~~ 2019