



上海商業銀行
SHANGHAI COMMERCIAL BANK

2016

GROUP INTERIM FINANCIAL
DISCLOSURE STATEMENT



SHANGHAI COMMERCIAL BANK LIMITED
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2016

Contents

1	Condensed Consolidated Income Statement
2	Condensed Consolidated Statement of Comprehensive Income
3	Condensed Consolidated Statement of Financial Position
4	Condensed Consolidated Statement of Changes in Equity
5	Condensed Consolidated Statement of Cash Flows
7	Notes to the Group Interim Financial Disclosure Statement
34	Appendix – Unaudited Supplementary Financial Information
58	Review of Operations
59	Statement of Compliance
60	Report on Review of Interim Financial Information

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Interest income	6	1,808,704	1,861,350
Interest expense	6	(560,369)	(610,520)
Net interest income		1,248,335	1,250,830
Fee and commission income	7	340,236	457,861
Fee and commission expense	7	(18,706)	(21,881)
Net fee and commission income		321,530	435,980
Dividend income	8	4,218	42,858
Net trading income	9	138,954	69,930
Net losses from disposal of equipment		(83)	-
Net gains from disposal of available-for-sale investments		41,042	28,626
Other operating income	10	37,985	36,278
Net earned insurance premium	11	21,916	23,432
Net insurance claims incurred and movement in policyholders' liabilities	11	(10,613)	(10,588)
Operating expenses	12	(684,383)	(630,406)
Charge of impairment losses on loans and advances to customers	13	(9,099)	(8,929)
Operating profit		1,109,802	1,238,011
Share of net profits of joint ventures		16,403	40,905
Profit before income tax		1,126,205	1,278,916
Income tax expense	14	(246,762)	(246,377)
Profit for the period		879,443	1,032,539
Attributable to:			
Equity holders of the Bank		877,289	1,030,396
Non-controlling interests		2,154	2,143
		879,443	1,032,539

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Profit for the period	879,443	1,032,539
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(20,647)	1,710
Net gains/(losses) on available-for-sale investments		
Fair value changes on available-for-sale investments taken to equity	238,326	549,794
Exchange differences on translation of available-for-sale investments	(8,839)	(2,479)
Fair value changes transferred to income statement on disposal of available-for-sale investments	(41,042)	(28,626)
Deferred income tax	(31,093)	(85,176)
Share of reserves of joint ventures	11,495	2,222
Other comprehensive income for the period	148,200	437,445
Total comprehensive income for the period	1,027,643	1,469,984
Attributable to:		
Equity holders of the Bank	1,025,604	1,467,437
Non-controlling interests	2,039	2,547
	1,027,643	1,469,984

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30th June 2016 (unaudited)	31st December 2015 (audited)
ASSETS			
Cash and balances with banks	15	24,068,489	34,840,728
Placements with and loans and advances to banks	16	21,946,722	14,268,484
Loans and advances to customers	17	63,307,642	64,100,702
Financial assets held for trading		407,320	432,655
Derivative financial instruments	18	217,878	224,712
Available-for-sale investments		42,596,996	38,557,109
Held-to-maturity investments		2,518,190	2,508,464
Investments in joint ventures		328,488	304,440
Properties and equipment	19	2,675,943	2,637,660
Investment properties	20	1,028,853	995,610
Deferred income tax assets	23	44,432	47,571
Other assets		1,339,858	695,147
TOTAL ASSETS		160,480,811	159,613,282
LIABILITIES			
Deposits and balances from banks		6,193,950	5,988,205
Deposits from customers	21	129,224,307	129,204,911
Derivative financial instruments	18	158,582	226,614
Other liabilities		1,622,235	1,072,347
Provisions		70,021	96,049
Current income tax liabilities		157,853	92,263
Deferred income tax liabilities	23	325,981	292,254
TOTAL LIABILITIES		137,752,929	136,972,643
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital		2,000,000	2,000,000
Retained earnings		10,941,029	11,003,984
Reserves	24	9,717,054	9,568,495
		22,658,083	22,572,479
Non-controlling interests in equity		69,799	68,160
TOTAL EQUITY		22,727,882	22,640,639
TOTAL EQUITY AND LIABILITIES		160,480,811	159,613,282

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders			Non-controlling interests	Total equity
	Share capital	Reserves	Retained earnings (including proposed dividends)		
As at 1st January 2015	<u>2,000,000</u>	<u>9,620,510</u>	<u>10,058,664</u>	<u>64,394</u>	<u>21,743,568</u>
Profit for the period	-	-	1,030,396	2,143	1,032,539
Other comprehensive income					
Fair value gains, net of tax:					
- available-for-sale investments	-	464,214	-	404	464,618
Currency translation differences	-	348	(1,117)	-	(769)
Share of reserves of joint ventures	-	2,222	-	-	2,222
Realised on disposal of available-for-sale investments	-	(28,626)	-	-	(28,626)
Total other comprehensive income	-	438,158	(1,117)	404	437,445
Payment of dividend relating to 2014	-	-	(940,000)	(400)	(940,400)
As at 30th June 2015 (unaudited)	<u>2,000,000</u>	<u>10,058,668</u>	<u>10,147,943</u>	<u>66,541</u>	<u>22,273,152</u>
As at 1st January 2016	<u>2,000,000</u>	<u>9,568,495</u>	<u>11,003,984</u>	<u>68,160</u>	<u>22,640,639</u>
Profit for the period	-	-	877,289	2,154	879,443
Other comprehensive income					
Fair value gains, net of tax:					
- available-for-sale investments	-	207,348	-	(115)	207,233
Currency translation differences	-	(29,242)	(244)	-	(29,486)
Share of reserves of joint ventures	-	11,495	-	-	11,495
Realised on disposal of available-for-sale investments	-	(41,042)	-	-	(41,042)
Total other comprehensive income	-	148,559	(244)	(115)	148,200
Payment of dividend relating to 2015	-	-	(940,000)	(400)	(940,400)
As at 30th June 2016 (unaudited)	<u>2,000,000</u>	<u>9,717,054</u>	<u>10,941,029</u>	<u>69,799</u>	<u>22,727,882</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Cash flows from operating activities		
Profit before income tax	1,126,205	1,278,916
Share of net profits of joint ventures	(16,403)	(40,905)
Charge of impairment losses on loans and advances to customers	9,099	8,929
Depreciation expenses	39,506	35,151
Net losses from disposal of equipment	83	-
Net gains from disposal of available-for-sale investments	(41,042)	(28,626)
Interest income on held-to-maturity and available-for-sale investments	(497,173)	(314,041)
Dividend income	(4,218)	(42,858)
Other income	-	(741)
Hong Kong profits tax paid	(73,853)	(50,749)
Overseas tax paid	(119,160)	(108,003)
	<hr/>	<hr/>
Cash flows from operating activities before changes in operating assets and liabilities	423,044	737,073
	<hr/>	<hr/>
Changes in operating assets and liabilities:		
- Net decrease in balances with banks with original maturity beyond three months	1,865,043	347,023
- Net increase in placements with and loans and advances to banks with original maturity beyond three months	(7,160,723)	(551,784)
- Net decrease/(increase) in financial assets held for trading	25,335	(24,396)
- Net increase in derivative financial instruments	(61,198)	(8,239)
- Net decrease in loans and advances to customers	784,928	438,626
- Net increase in other assets	(626,833)	(1,044,771)
- Net increase/(decrease) in deposits and balances from banks	205,745	(1,934,704)
- Net increase in deposits from customers	19,396	8,964,157
- Net increase in other liabilities and provisions	523,860	1,241,662
	<hr/>	<hr/>
Net cash flows from operating activities	(4,001,403)	8,164,647
	<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Cash flows from investing activities			
Acquisition of subsidiaries	25(a)	-	(722,560)
Interest received on held-to-maturity and available-for-sale investments		484,910	326,742
Dividends received on available-for-sale investments		4,218	42,858
Dividends received from joint ventures		3,850	3,950
Purchases of properties and equipment		(71,161)	(136,896)
Additions of investment properties		(42,290)	-
Proceeds from sale of equipment		2	20
Purchases of available-for-sale investments		(8,107,570)	(9,156,445)
Purchases of held-to-maturity investments		(1,063,745)	(506,281)
Proceeds from sale and redemption of available-for-sale investments		4,302,059	3,968,197
Proceeds from redemption of held-to-maturity investments		1,049,377	508,264
Net cash flows from investing activities		(3,440,350)	(5,672,151)
Cash flows from financing activities			
Dividend paid to equity holders		(940,000)	(940,000)
Dividend paid to non-controlling interests		(400)	(400)
Net cash flows from financing activities		(940,400)	(940,400)
Net (decrease)/increase in cash and cash equivalents		(8,382,153)	1,552,096
Cash and cash equivalents as at 1st January		34,663,066	29,404,515
Effect of exchange rate changes on cash and cash equivalents		(7,528)	200,265
Cash and cash equivalents as at 30th June	25(b)	26,273,385	31,156,876
Cash flows from operating activities and investing activities included:			
Interest received		1,852,537	1,896,696
Interest paid		(561,361)	(577,615)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

1 General information

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiary companies (together the 'Group') are engaged in the provision of banking and related financial services in Hong Kong, United States, United Kingdom and the People's Republic of China.

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is 35/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd., which is incorporated in the Republic of China (Taiwan).

This Group Interim Financial Disclosure Statement is presented in thousands of units of Hong Kong Dollars (HK\$'000), unless otherwise stated, and was approved for issue by the Board of Directors on 17th August 2016.

2 Basis of preparation

This Group Interim Financial Disclosure Statement for the six months ended 30th June 2016 has been prepared in accordance with Hong Kong Accounting Standard ('HKAS') 34, 'Interim financial reporting'. The Group Interim Financial Disclosure Statement should be read in conjunction with the annual financial statements for the year ended 31st December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRSs').

The financial information relating to the year ended 31st December 2015 that is included in the 2016 Group Interim Financial Disclosure Statement as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Group has delivered the financial statements for the year ended 31st December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Group's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies

Except as described below, the accounting policies applied in the preparation of the 2016 Group Interim Financial Disclosure Statement are consistent with those used and described in the Group's audited annual financial statements for the year ended 31st December 2015.

(a) The following standards, amendments and interpretations, which became effective in 2016, are relevant to the Group:

Annual improvements to HKFRSs

Annual improvements to HKFRSs contain numerous amendments to HKFRSs which the Hong Kong Institute of Certified Public Accountants ('HKICPA') considers not urgent but necessary. They comprise amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The adoption of these improvements does not have a material impact on the Group's financial statements.

Amendments to HKAS 1 'Presentation of financial statements' - Disclosure initiative

Amendments to HKAS 1 'Disclosure Initiative' are effective for the accounting period beginning on or after 1st January 2016. The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments do not have material impact on the Group's financial statements as the Group has been disclosing all material information and disaggregated all line items that are material or useful to users of financial statements.

(b) Amendments, new standards and interpretations issued but not yet effective for the period ended 30th June 2016:

The HKICPA has issued a few amendments and new standards which are not yet effective for the period ended 30th June 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 'Statement of cash flows' - Disclosure initiative	1st January 2017
Amendments to HKAS 12 'Income taxes' - Recognition of deferred tax assets for unrealised losses	1st January 2017
HKFRS 15 'Revenue from contracts with customers'	1st January 2018
HKFRS 9 'Financial instruments'	1st January 2018
HKFRS 16 'Leases'	1st January 2019
Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined

The Group is assessing the financial impacts of the amendments and standards and the timing of their application.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

4 Estimates

The preparation of the Group Interim Financial Disclosure Statement requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Group Interim Financial Disclosure Statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2015.

5 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

5 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

The following is a list of the subsidiaries as at 30th June 2016:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	30th June 2016		31st December 2015	
					Total assets	Total equity	Total assets	Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares	¹ 100%	10	10	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares	² 60%	14,708	14,403	15,368	15,042
Shacom Futures Limited	Hong Kong	Commodities trading Hong Kong	100,000 ordinary shares	¹ 100%	29,722	7,699	20,085	7,819
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	¹ 100%	2,322,655	9,634	2,287,052	1,247
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US\$1 each	¹ 100%	35,027	(743)	38,214	(1,288)
Shacom Property (NY) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	¹ 100%	5,741	5,741	5,736	5,736
Shacom Property (CA) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	¹ 100%	2,762	2,762	2,754	2,754
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	¹ 100%	997,376	256	997,185	65
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	¹ 100%	26,427	17,221	24,907	17,132
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	¹ 100%	6,879	1,493	4,088	1,283
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares	¹ 100%	526,805	159,462	191,858	158,663
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	¹ 100%	712	451	734	444
Paofong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	² 60%	262,890	160,093	247,284	155,357
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	¹ 100%	2	(86)	-	(83)
Glory Step Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	192,788	(2,230)	192,973	(2,063)
Silver Wisdom Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	287,318	(2,406)	287,640	(2,127)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	¹ 100%	246,465	46,811	245,885	45,071
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	¹ 100%	248,448	48,708	247,869	46,868
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	¹ 100%	250,442	50,827	249,866	49,091

¹ Ordinary share capital is held directly by the Bank.

² 60% of ordinary share capital is held directly by the Bank and 40% of ordinary share capital is held by non-controlling interests in equity.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

5 Basis of consolidation (Continued)

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have right to the net assets of the arrangement. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

6 Net interest income

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Interest income		
Cash and balances with banks	213,946	424,271
Held-to-maturity and available-for-sale investments	497,173	314,041
Loans and advances to customers	1,093,971	1,119,519
Others	3,614	3,519
	<u>1,808,704</u>	<u>1,861,350</u>
Interest income on financial assets that are not at fair value through profit or loss	<u>1,808,704</u>	<u>1,861,350</u>
Included within interest income		
Interest income accrued on impaired financial assets	440	5,261
Interest expense		
Deposits and balances from bank	33,668	23,606
Deposits from customers	525,508	585,557
Others	1,193	1,357
	<u>560,369</u>	<u>610,520</u>
Interest expense on financial liabilities that are not at fair value through profit or loss	<u>560,369</u>	<u>610,520</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

7 Net fee and commission income

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Fee and commission income		
Bills	46,477	53,846
Nominees, custodian and securities brokerage	74,048	181,107
Wealth management products	47,126	60,404
Remittance	26,315	32,164
Facility fees	58,949	56,041
Credit cards	21,844	22,857
Retail banking	22,489	22,568
Insurance	38,199	24,330
Loans and advances	2,963	2,130
Trust and other commissions	1,826	2,414
	<u>340,236</u>	<u>457,861</u>
Fee and commission expense		
Bills	2,369	2,043
Nominees, custodian and securities brokerage	7,060	9,735
Retail banking	9,207	10,019
Credit cards	34	43
Remittance	36	41
	<u>18,706</u>	<u>21,881</u>
Of which :		
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value		
- fee and commission income	130,233	134,874
- fee and commission expense	2,403	2,086
Net fee and commission income on trust and other fiduciary activities		
- fee and commission income	11,162	9,424

The Group provides custody, trustee and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

8 Dividend income

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Dividend income from available-for-sale investments		
- listed investments	1,518	1,108
- unlisted investments	2,700	41,750
	<u>4,218</u>	<u>42,858</u>

9 Net trading income

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Foreign exchange	125,789	61,900
Interest rate instruments	9,907	(1,502)
Equities	1,136	6,417
Other trading income	2,122	3,115
	<u>138,954</u>	<u>69,930</u>

'Foreign exchange' trading income includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. 'Interest rate instruments' trading income includes the results of trading in government securities, corporate debt securities and money market instruments. 'Equities' trading income includes the results of trading in equity securities.

10 Other operating income

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Gross rental income from investment properties	4,888	419
Others	33,097	35,859
	<u>37,985</u>	<u>36,278</u>

11 Net earned insurance premium and net insurance claims incurred and movement in policyholders' liabilities

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Insurance premium revenue	29,414	30,183
Insurance premium ceded to reinsurers	(7,498)	(6,751)
	<u>21,916</u>	<u>23,432</u>

The related net insurance claims incurred and movement in policyholders' liabilities of HK\$10,613,000 (six months ended 30th June 2015: HK\$10,588,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK\$858,000 (six months ended 30th June 2015: HK\$1,763,000).

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

12 Operating expenses

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Auditor's remuneration		
Statutory audit services	3,117	3,217
Non-statutory audit and other services (Note a)	2,677	3,084
Advertising costs	9,873	9,942
Depreciation expenses	39,506	35,151
Employee benefit expenses		
Wages and salaries and other costs (Note b)	378,879	355,618
Pension costs - defined contribution schemes	29,944	25,417
Pension costs - defined benefit schemes	12	22
Premises and equipment expense, excluding depreciation		
Rental of premises	77,124	71,302
Building expenses (Note c)	11,554	5,337
Building management fee	8,396	6,431
Other operating expenses		
Computer rental and licence	8,765	7,231
Credit card business promotion	16,084	11,880
Credit card service fee	5,167	5,203
Insurance	2,573	3,078
Legal and consultancy	5,606	5,214
Postage	7,064	7,047
Printing and stationery	4,760	4,785
Repair and maintenance	8,991	9,136
Telephone and communications	14,064	12,994
Travelling and transportation	2,681	2,369
Water, heat and light	7,268	7,079
Others	40,278	38,869
	684,383	630,406

Note a: Included in the non-statutory audit and other services is the fee paid for the full scope audit of the Group's financial information for the group reporting to the ultimate holding company in Taiwan under its local statutory requirements.

Note b: Employee benefit expenses include directors' emoluments. The number of employees of the Group as at 30th June 2016 was 1,753 (30th June 2015: 1,695).

Note c: Included in building expenses are direct operating expenses of HK\$2,343,000 (six months ended 30th June 2015: Nil) arising from investment properties, of which HK\$1,614,000 (six months ended 30th June 2015: Nil) is related to investment properties that do not generate rental income.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

13 Charge of impairment losses on loans and advances to customers

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Trade bills	120	240
Loans and advances to customers	8,979	8,689
	<u>9,099</u>	<u>8,929</u>
Net charge/(reversal) of impairment losses		
- Individually assessed	9,595	9,352
- Collectively assessed	(496)	(423)
	<u>9,099</u>	<u>8,929</u>
Of which		
- new allowances	30,786	26,608
- releases	(19,477)	(15,993)
- recoveries	(2,210)	(1,686)
Net charge to income statement	<u>9,099</u>	<u>8,929</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

14 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June 2015: 16.5%) on the estimated assessable profits for the six months ended 30th June 2016. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30th June 2016 at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the income statement represents:

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Current income tax:		
- Hong Kong profits tax	143,982	157,947
- Overseas taxation	99,038	89,672
- Over provisions in respect of prior years	(1,933)	(3,312)
Total current income tax	241,087	244,307
Deferred income tax:		
- Hong Kong deferred tax	2,634	(114)
- Overseas deferred tax	3,041	2,184
Total deferred income tax	5,675	2,070
Income tax expense	246,762	246,377

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

15 Cash and balances with banks

	30th June 2016 (unaudited)	31st December 2015 (audited)
Cash in hand	315,566	317,915
Balances with central banks and Hong Kong Monetary Authority	5,719,395	14,859,526
Balances with banks	18,033,528	19,663,287
	24,068,489	34,840,728

As at 30th June 2016, HK\$1,500,000 (31st December 2015: HK\$1,500,000) were deposited in the name of the Director of Accounting Services Treasury Hong Kong by a subsidiary company of the Bank to comply with the statutory requirement.

As at 30th June 2016, there were HK\$150,570,000 (31st December 2015: HK\$153,294,000) of statutory deposits with the central banks in the countries the Group is operating the business for the purpose of complying with the statutory requirements of the countries.

Included in the above amounts, HK\$155,661,000 (31st December 2015: HK\$74,067,000) were deposited with designated banks in the People's Republic of China as at 30th June 2016, to comply with the local statutory requirement.

16 Placements with and loans and advances to banks

	30th June 2016 (unaudited)	31st December 2015 (audited)
Placements with banks maturing between 1 and 12 months	21,942,145	14,210,961
Loans and advances to banks maturing between 1 and 12 months	4,577	57,523
	21,946,722	14,268,484

Included in the above amounts, HK\$301,112,000 (31st December 2015: HK\$303,503,000) were deposited with designated banks in the People's Republic of China as at 30th June 2016, to comply with the local statutory requirement. No impairment allowances for the placements with and loans and advances to banks were needed.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Loans and advances to customers

	30th June 2016 (unaudited)	31st December 2015 (audited)
Loans and advances to individuals	15,577,832	15,884,628
Loans and advances to corporate entities	48,008,478	48,491,294
Gross loans and advances to customers	63,586,310	64,375,922
Less: impairment allowances		
- Individually assessed	(24,311)	(19,424)
- Collectively assessed	(254,357)	(255,796)
	63,307,642	64,100,702
Gross trade bills and other eligible bills, included within loans and advances to customers	570,345	972,598
Less: impairment allowances on trade bills		
- Collectively assessed	(896)	(777)
	569,449	971,821

The Group accepted listed securities at fair value of HK\$2,735,287,000 as at 30th June 2016 (31st December 2015: HK\$2,881,252,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

18 Derivative financial instruments

	Contract amount	Fair values	
		Assets	Liabilities
As at 30th June 2016 (unaudited)			
Derivatives held for trading			
Exchange rate contracts			
Forwards and swaps	48,881,598	217,878	(158,582)
Total recognised derivative assets/(liabilities)		217,878	(158,582)

	Contract amount	Fair values	
		Assets	Liabilities
As at 31st December 2015 (audited)			
Derivatives held for trading			
Exchange rate contracts			
Forwards and swaps	53,419,039	224,712	(226,614)
Total recognised derivative assets/(liabilities)		224,712	(226,614)

	Credit risk weighted amount	
	30th June 2016 (unaudited)	31st December 2015 (audited)
Exchange rate contracts	260,027	308,654

The contract amounts of these instruments indicate the volume of transactions outstanding as at the end of the reporting period, they do not represent the amounts at risk.

The credit risk weighted amounts as at 30th June 2016 and 31st December 2015 are the amounts that have been calculated in accordance with the Banking (Capital) Rules.

The above credit risk weighted amounts and fair values have not taken into account the effect of bilateral netting arrangements and accordingly the amounts disclosed are shown on a gross basis.

The Group uses the following derivative strategies:

- Trading purposes (customer needs)

The Group offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

- Trading purposes (own account)

The Group trades derivatives for its own account. These derivatives entered into in order to take proprietary positions. Trading limits and price verification controls are key aspects of this activity.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

19 Properties and equipment

	Property under development					Total
	Leasehold land	Bank premises	Furniture, fittings and equipment	Leasehold land	Development cost	
As at 1st January 2015						
Cost	820,871	483,097	622,982	1,383,906	214,498	3,525,354
Accumulated depreciation	(86,783)	(231,144)	(537,919)	(11,595)	-	(867,441)
Net book amount	<u>734,088</u>	<u>251,953</u>	<u>85,063</u>	<u>1,372,311</u>	<u>214,498</u>	<u>2,657,913</u>
Year ended 31st December 2015						
Opening net book amount	734,088	251,953	85,063	1,372,311	214,498	2,657,913
Additions	360	-	32,481	-	294,077	326,918
Acquisition of subsidiaries	389,586	331,216	-	-	-	720,802
Transfers to investment properties (Note 20)						
Cost	-	-	-	(729,457)	(268,070)	(997,527)
Accumulated depreciation	-	-	-	6,982	-	6,982
Disposals / write-off						
Cost	-	-	(8,663)	-	-	(8,663)
Accumulated depreciation	-	-	8,519	-	-	8,519
Depreciation charge	(17,166)	(19,285)	(37,622)	(1,651)	-	(75,724)
Exchange adjustments	-	(1,312)	(248)	-	-	(1,560)
Closing net book amount	<u>1,106,868</u>	<u>562,572</u>	<u>79,530</u>	<u>648,185</u>	<u>240,505</u>	<u>2,637,660</u>
As at 31st December 2015 (audited)						
Cost	1,210,817	812,489	645,077	654,449	240,505	3,563,337
Accumulated depreciation	(103,949)	(249,917)	(565,547)	(6,264)	-	(925,677)
Net book amount	<u>1,106,868</u>	<u>562,572</u>	<u>79,530</u>	<u>648,185</u>	<u>240,505</u>	<u>2,637,660</u>
Six months ended 30th June 2016						
Opening net book amount	1,106,868	562,572	79,530	648,185	240,505	2,637,660
Additions	-	10,478	33,111	-	27,572	71,161
Transfers						
Cost	654,449	268,077	-	(654,449)	(268,077)	-
Accumulated depreciation	(6,459)	-	-	6,459	-	-
Transfers from investment properties (Note 20)						
Cost	4,567	1,886	-	-	-	6,453
Accumulated depreciation	(46)	(9)	-	-	-	(55)
Disposals / write-off						
Cost	-	-	(7,805)	-	-	(7,805)
Accumulated depreciation	-	-	7,720	-	-	7,720
Depreciation charge	(8,780)	(11,575)	(16,307)	(195)	-	(36,857)
Exchange adjustments	-	(2,258)	(76)	-	-	(2,334)
Closing net book amount	<u>1,750,599</u>	<u>829,171</u>	<u>96,173</u>	<u>-</u>	<u>-</u>	<u>2,675,943</u>
As at 30th June 2016 (unaudited)						
Cost	1,869,833	1,089,771	668,610	-	-	3,628,214
Accumulated depreciation	(119,234)	(260,600)	(572,437)	-	-	(952,271)
Net book amount	<u>1,750,599</u>	<u>829,171</u>	<u>96,173</u>	<u>-</u>	<u>-</u>	<u>2,675,943</u>

Property under development represented the related costs paid for the re-development of the Bank's new Head Office building in Central, Hong Kong. As at 30th June 2016, the carrying amounts have been transferred to leasehold land and bank premises as a result of the completion of the re-development project during the period.

As at 30th June 2016, interests in freehold land outside Hong Kong amounted to HK\$34,338,000 (31st December 2015: HK\$35,918,000) are included as bank premises above.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

20 Investment properties

			Property under development		Total
	Leasehold land	Buildings	Leasehold land	Buildings	
As at 1st January 2015					
Cost	3,211	3,418	-	-	6,629
Accumulated depreciation	(242)	(1,209)	-	-	(1,451)
Net book amount	<u>2,969</u>	<u>2,209</u>	-	-	<u>5,178</u>
Year ended 31st December 2015					
Opening net book amount	2,969	2,209	-	-	5,178
Transfers from properties and equipment (Note 19)					
Cost	-	-	729,457	268,070	997,527
Accumulated depreciation	-	-	(6,982)	-	(6,982)
Depreciation charge	(27)	(86)	-	-	(113)
Closing net book amount	<u>2,942</u>	<u>2,123</u>	<u>722,475</u>	<u>268,070</u>	<u>995,610</u>
As at 31st December 2015 (audited)					
Cost	3,211	3,418	729,457	268,070	1,004,156
Accumulated depreciation	(269)	(1,295)	(6,982)	-	(8,546)
Net book amount	<u>2,942</u>	<u>2,123</u>	<u>722,475</u>	<u>268,070</u>	<u>995,610</u>
Six months ended 30th June 2016					
Opening net book amount	2,942	2,123	722,475	268,070	995,610
Additions	-	11,558	-	30,732	42,290
Transfers					
Cost	729,457	298,802	(729,457)	(298,802)	-
Accumulated depreciation	(7,200)	-	7,200	-	-
Transfers to properties and equipment (Note 19)					
Cost	(4,567)	(1,886)	-	-	(6,453)
Accumulated depreciation	46	9	-	-	55
Depreciation charge	(230)	(2,201)	(218)	-	(2,649)
Closing net book amount	<u>720,448</u>	<u>308,405</u>	<u>-</u>	<u>-</u>	<u>1,028,853</u>
As at 30th June 2016 (unaudited)					
Cost	728,101	311,892	-	-	1,039,993
Accumulated depreciation	(7,653)	(3,487)	-	-	(11,140)
Net book amount	<u>720,448</u>	<u>308,405</u>	<u>-</u>	<u>-</u>	<u>1,028,853</u>

Property under development represented the related costs paid for the re-development of the Bank's new Head Office building in Central, Hong Kong. As at 30th June 2016, the carrying amounts have been transferred to leasehold land and buildings as a result of the completion of the re-development project during the period.

21 Deposits from customers

	30th June 2016 (unaudited)	31st December 2015 (audited)
Demand deposits and current accounts	14,066,070	13,434,825
Savings deposits	40,037,911	37,131,871
Time, call and notice deposits	74,732,127	78,250,467
Deposits from Hong Kong Government Exchange Fund	388,199	387,748
	<u>129,224,307</u>	<u>129,204,911</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with and loans and advances to banks

Balances with banks and placements with and loans and advances to banks include inter-bank placements. The maturities of these financial assets are within one year. The carrying amount at the reporting date approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are stated net of impairment allowances. An insignificant portion of loans and advances to customers bears interest at fixed rate. The carrying amount at the reporting date approximates their fair value.

(iii) Held-to-maturity securities

The fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The fair value of held-to-maturity securities is HK\$2,530,487,000 (31st December 2015: HK\$2,521,190,000). The fair value of held-to-maturity securities is classified under Level 1 (30th June 2016: HK\$2,375,428,000, 31st December 2015: HK\$2,365,937,000) and Level 2 (30th June 2016: HK\$155,059,000, 31st December 2015: HK\$155,253,000) in the fair value hierarchy. Please refer to Note 22(b) for the definition of fair value hierarchy.

(iv) Deposits and balances from banks and deposits from customers

Substantially all the deposits and balances from banks and deposits from customers mature within 1 year from the reporting date. Hence, the carrying amount at the reporting date approximates their fair value.

(b) Fair value hierarchy

Valuation governance

The Group has in place fair valuation policy to ensure adequate governance and control processes for the designation and valuation of financial instruments to be measured at fair value for financial reporting, risk management and regulatory capital purposes. The valuation process is conducted by control units independent of risk taking units.

The Group is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, funds and debt securities on exchanges and paper gold.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts, unlisted equities securities, unlisted funds and unlisted debt securities. The sources of input parameters such as HIBOR and LIBOR yield curves or counterparty credit risk are obtained from Bloomberg and Reuters.

Level 3 - Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

As at 30th June 2016 (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	234,245	141,237	-	375,482
Equity securities	27,828	-	-	27,828
Funds	3,906	-	-	3,906
Others	104	-	-	104
Derivative financial instruments				
Exchange rate contracts	-	217,878	-	217,878
Available-for-sale investments				
Debt securities	8,808,141	30,654,638	2,874	39,465,653
Equity securities	145,047	75,770	2,910,526	3,131,343
Total Assets	9,219,271	31,089,523	2,913,400	43,222,194
Derivative financial instruments				
Exchange rate contracts	-	158,582	-	158,582
Total Liabilities	-	158,582	-	158,582

As at 31st December 2015 (audited)	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	250,123	115,447	-	365,570
Equity securities	32,531	-	-	32,531
Funds	6,359	27,341	-	33,700
Others	854	-	-	854
Derivative financial instruments				
Exchange rate contracts	-	224,712	-	224,712
Available-for-sale investments				
Debt securities	7,522,654	27,841,409	2,874	35,366,937
Equity securities	169,469	81,430	2,939,273	3,190,172
Total Assets	7,981,990	28,290,339	2,942,147	39,214,476
Derivative financial instruments				
Exchange rate contracts	-	226,614	-	226,614
Total Liabilities	-	226,614	-	226,614

There were no significant transfers of financial assets or liabilities between level 1 and level 2 fair value hierarchy classifications.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Level 2 fair values of unlisted debt investments and funds are determined based on quotes from brokers. The most significant input is discount rate and dividend yield of the instruments.

Level 2 fair values of unlisted equity securities are determined based on quoted prices for identical assets from over-the-counter market.

Level 2 fair values of exchange rate contracts are determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.

Level 3 fair values of unlisted equity securities are determined based on latest price of identical assets between independent third parties. If no such information is available, management estimates the fair value based on comparable market data such as price to book ratio, price to earnings ratio etc. adjusted for marketability.

If the change in the price to book ratio would be shifted by +/- 5%, the impact on other comprehensive income would be increased/ decreased by HK\$143,791,000 (31st December 2015: HK\$145,230,000) respectively.

The following table presents the changes in level 3 instruments for the six months ended 30th June 2015 and 2016 respectively.

	Available-for-sale investments		
	Equity securities	Debt securities	Total
As at 1st January 2015	2,558,510	2,874	2,561,384
Total gains			
- Other comprehensive income/ (loss)	357,833	-	357,833
Purchases	202,764	-	202,764
Exchange adjustments	(3,138)	-	(3,138)
As at 30th June 2015 (unaudited)	<u>3,115,969</u>	<u>2,874</u>	<u>3,118,843</u>
As at 1st January 2016	2,939,273	2,874	2,942,147
Total gains			
- Other comprehensive income/ (loss)	(27,743)	-	(27,743)
Purchases	-	-	-
Exchange adjustments	(1,004)	-	(1,004)
As at 30th June 2016 (unaudited)	<u>2,910,526</u>	<u>2,874</u>	<u>2,913,400</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are shown below:

Deferred income tax assets	Impairment allowances	Accelerated tax depreciation	Fair value losses on available-for-sale investments	Others	Total
As at 1st January 2015	37,700	(7,983)	64	14,339	44,120
Credited/(charged) to the income statement	2,963	(98)	-	778	3,643
Exchange adjustments	(482)	336	-	(13)	(159)
Charged to equity	-	-	(206)	-	(206)
Reclassified from deferred income tax liabilities	-	-	173	-	173
As at 31st December 2015 (audited)	40,181	(7,745)	31	15,104	47,571
(Charged)/credited to the income statement	351	(88)	-	(3,304)	(3,041)
Exchange adjustments	(752)	639	-	15	(98)
As at 30th June 2016 (unaudited)	<u>39,780</u>	<u>(7,194)</u>	<u>31</u>	<u>11,815</u>	<u>44,432</u>

Deferred income tax liabilities	Impairment allowances	Accelerated tax depreciation	Fair value gains on available-for-sale investments	Others	Total
As at 1st January 2015	32,490	(9,312)	(311,276)	(1,076)	(289,174)
Charged to the income statement	(1,856)	(1,182)	-	(79)	(3,117)
Credited to equity	-	-	210	-	210
Reclassified to deferred income tax assets	-	-	(173)	-	(173)
As at 31st December 2015 (audited)	30,634	(10,494)	(311,239)	(1,155)	(292,254)
Charged to the income statement	(662)	(1,972)	-	-	(2,634)
Charged to equity	-	-	(31,093)	-	(31,093)
As at 30th June 2016 (unaudited)	<u>29,972</u>	<u>(12,466)</u>	<u>(342,332)</u>	<u>(1,155)</u>	<u>(325,981)</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

24 Reserves

	Regulatory reserve (Note)	Available- for-sale revaluation reserve	General and other reserves	Total
As at 1st January 2015	698,597	1,574,062	7,347,851	9,620,510
Change in fair value of available-for-sale investments	-	109,698	-	109,698
Realised on disposal of available-for-sale investments	-	(94,238)	-	(94,238)
Effect of deferred taxation	-	86	-	86
Currency translation differences	(2,047)	(13,516)	(82,139)	(97,702)
Share of reserves of joint ventures	-	(1,121)	31,262	30,141
As at 31st December 2015 (audited)	<u>696,550</u>	<u>1,574,971</u>	<u>7,296,974</u>	<u>9,568,495</u>
As at 1st January 2016	696,550	1,574,971	7,296,974	9,568,495
Change in fair value of available-for-sale investments	-	238,464	-	238,464
Realised on disposal of available-for-sale investments	-	(41,042)	-	(41,042)
Effect of deferred taxation	-	(31,116)	-	(31,116)
Currency translation differences	(339)	(8,839)	(20,064)	(29,242)
Share of reserves of joint ventures	-	-	11,495	11,495
As at 30th June 2016 (unaudited)	<u>696,211</u>	<u>1,732,438</u>	<u>7,288,405</u>	<u>9,717,054</u>

Note: The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements of overseas branches for prudent supervision purpose. Any movements in the regulatory reserve for Hong Kong operation are made in consultation with the Hong Kong Monetary Authority ('HKMA').

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

25(a) Acquisition of subsidiaries

On 30th April 2015, the Group acquired 100% of the issued shares of KCC 23F Limited, KCC 25F Limited and KCC 26F Limited, the property holding companies, for a consideration of HK\$722,560,000. Major assets purchased are properties with fair value of HK\$720,802,000 at the date of acquisition. The aggregated fair value of other assets acquired and liabilities assumed was HK\$2,499,000. Acquisition-related costs included in operating expenses of the Group for the period ended 30th June 2015 were HK\$9,375,000.

25(b) Cash and cash equivalents

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition and that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	30th June 2016 (unaudited)	30th June 2015 (unaudited)
Cash and balances with banks	22,616,452	27,715,186
Placements with and loans and advances to banks	3,656,933	3,441,690
	<u>26,273,385</u>	<u>31,156,876</u>

26 Contingent liabilities and commitments

(a) Credit commitments

The contract amounts of the Group's off-balance sheet instruments that commit it to extend credit to customers:

	30th June 2016 (unaudited)	31st December 2015 (audited)
Direct credit substitutes	2,043,794	2,224,270
Trade-related contingencies	2,306,321	1,898,734
Forward deposits placed	678,469	1,005,099
Other commitments with an original maturity of:		
- under 1 year	262,628	285,427
- 1 year and over	5,203,868	3,921,157
- unconditionally cancellable	34,648,841	35,097,299
	<u>45,143,921</u>	<u>44,431,986</u>

The credit risk weighted amount of credit commitment is HK\$5,101,524,000 (31st December 2015: HK\$4,630,828,000).

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are therefore subject to the same credit origination, portfolio maintenance and collateral requirements as for customers applying for loans.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

26 Contingent liabilities and commitments (Continued)

(b) Capital commitments

Capital expenditure at the reporting date but not yet incurred is as follows:

	30th June 2016 (unaudited)	31st December 2015 (audited)
Properties and equipment		
Contracted but not provided for	275,640	268,030
Authorised but not contracted for	130,281	78,635
	405,921	346,665

(c) Operating lease commitments

(i) As lessee

Where a group company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	30th June 2016 (unaudited)	31st December 2015 (audited)
No later than 1 year	113,060	138,176
Later than 1 year and no later than 5 years	100,893	100,105
Later than 5 years	8,098	2,260
	222,051	240,541

(ii) As lessor

Where a group company is the lessor, the future minimum lease receivables under non-cancellable operating leases are as follows:

	30th June 2016 (unaudited)	31st December 2015 (audited)
No later than 1 year	77,873	700
Later than 1 year and no later than 5 years	237,590	225
	315,463	925

The Group leases its investment properties (Note 20) under operating lease arrangements, with leases typically for a period from 3 to 5 years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

27 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

As at 30th June 2016 (unaudited)	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	8,166,874	15,901,615	-	-	-	-	-	24,068,489
Placements with and loans and advances to banks	-	-	6,939,894	15,006,828	-	-	-	21,946,722
Loans and advances to customers	4,695,175	3,631,435	5,112,160	11,613,616	19,985,880	17,797,112	472,264	63,307,642
Financial assets held for trading	-	224	224	26,066	74,195	274,773	31,838	407,320
Derivative financial instruments	-	119,250	39,265	59,338	25	-	-	217,878
Available-for-sale investments	-	441,086	681,578	6,568,525	31,080,709	690,881	3,134,217	42,596,996
Held-to-maturity investments	-	77,752	194,749	1,364,885	880,804	-	-	2,518,190
Investments in joint ventures	-	-	-	-	-	-	328,488	328,488
Properties and equipment	-	-	-	-	21,305	2,620,300	34,338	2,675,943
Investment properties	-	-	-	-	-	1,028,853	-	1,028,853
Deferred income tax assets	-	-	-	-	44,432	-	-	44,432
Other assets	73,556	927,929	6,893	242,668	84,693	-	4,119	1,339,858
Total assets	12,935,605	21,099,291	12,974,763	34,881,926	52,172,043	22,411,919	4,005,264	160,480,811
Liabilities								
Deposits and balances from banks	806,683	3,631,638	849,046	790,154	116,429	-	-	6,193,950
Deposits from customers	54,649,176	26,913,995	28,182,377	18,773,424	705,335	-	-	129,224,307
Derivative financial instruments	-	66,826	40,570	50,786	400	-	-	158,582
Other liabilities	33,299	1,353,444	43,053	192,439	-	-	-	1,622,235
Provisions	-	128	-	66,944	2,845	104	-	70,021
Current income tax liabilities	-	-	-	157,853	-	-	-	157,853
Deferred income tax liabilities	-	-	-	-	325,981	-	-	325,981
Total liabilities	55,489,158	31,966,031	29,115,046	20,031,600	1,150,990	104	-	137,752,929
Net liquidity gap	(42,553,553)	(10,866,740)	(16,140,283)	14,850,326	51,021,053	22,411,815	4,005,264	22,727,882
Of which certificates of deposit included in:								
Available-for-sale investments	-	351,464	602,912	4,726,546	13,290,597	484,556	-	19,456,075

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

27 Maturity analysis (Continued)

As at 31st December 2015 (audited)	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	17,076,459	17,764,269	-	-	-	-	-	34,840,728
Placements with and loans and advances to banks	-	-	4,611,640	9,656,844	-	-	-	14,268,484
Loans and advances to customers	4,770,586	4,178,676	5,847,705	11,156,660	19,124,710	18,361,278	661,087	64,100,702
Financial assets held for trading	-	196	196	394	124,206	240,578	67,085	432,655
Derivative financial instruments	-	75,423	51,099	98,190	-	-	-	224,712
Available-for-sale investments	-	263,694	674,124	3,229,850	30,294,071	902,324	3,193,046	38,557,109
Held-to-maturity investments	-	133	252,628	1,182,730	1,072,973	-	-	2,508,464
Investments in joint ventures	-	-	-	-	-	-	304,440	304,440
Properties and equipment	-	-	-	-	20,266	2,581,476	35,918	2,637,660
Investment properties	-	-	-	-	-	995,610	-	995,610
Deferred income tax assets	-	-	-	-	47,571	-	-	47,571
Other assets	37,327	368,263	4,647	33,970	246,821	-	4,119	695,147
Total assets	21,884,372	22,650,654	11,442,039	25,358,638	50,930,618	23,081,266	4,265,695	159,613,282
Liabilities								
Deposits and balances from banks	440,639	4,025,299	610,257	484,411	427,599	-	-	5,988,205
Deposits from customers	51,214,055	30,534,921	27,110,661	19,611,334	733,940	-	-	129,204,911
Derivative financial instruments	-	48,982	56,892	120,739	1	-	-	226,614
Other liabilities	52,079	727,511	53,529	239,228	-	-	-	1,072,347
Provisions	-	383	91,249	-	4,267	150	-	96,049
Current income tax liabilities	-	-	-	92,263	-	-	-	92,263
Deferred income tax liabilities	-	-	-	-	292,254	-	-	292,254
Total liabilities	51,706,773	35,337,096	27,922,588	20,547,975	1,458,061	150	-	136,972,643
Net liquidity gap	(29,822,401)	(12,686,442)	(16,480,549)	4,810,663	49,472,557	23,081,116	4,265,695	22,640,639
Of which certificates of deposit included in:								
Available-for-sale investments	-	200,626	345,903	2,953,077	14,304,271	489,543	-	18,293,420

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Related party transactions

A number of banking transactions were entered into with related parties by the Group in the normal course of business and at arm's length basis. These include loans, deposits, trade finance transactions and investment transactions. The outstanding balances of the related party transactions as at the reporting date, and related expense and income for the period are as follows:

As at 30th June 2016 (unaudited)	Ultimate holding company and fellow subsidiaries	Joint ventures	Key management personnel (Note)	Other related parties	Total
Aggregate amounts outstanding at the period end					
- Loans and advances	-	-	146,970	-	146,970
- Cash and balances with banks	56	-	-	28,651	28,707
- Deposits and balances from banks and customers	763,504	904,724	1,941,577	1,372,765	4,982,570
- Available-for-sale investments	75,770	-	-	451,761	527,531
- Collectively assessed impairment allowances	-	-	599	-	599
- Contingent liabilities and other commitments	10,189	62,000	1,368,910	-	1,441,099
Six months ended 30th June 2016 (unaudited)					
Interest income received from related parties	-	28	4,411	20	4,459
Interest expenses paid to related parties	1,153	4,993	2,075	7,249	15,470
As at 31st December 2015 (audited)	Ultimate holding company and fellow subsidiaries	Joint ventures	Key management personnel (Note)	Other related parties	Total
Aggregate amounts outstanding at the year end					
- Loans and advances	-	5,835	149,150	-	154,985
- Cash and balances with banks	90	-	-	27,622	27,712
- Deposits and balances from banks and customers	620,818	244,651	1,758,238	1,223,274	3,846,981
- Available-for-sale investments	81,430	-	-	442,373	523,803
- Collectively assessed impairment allowances	-	23	619	-	642
- Contingent liabilities and other commitments	85,404	2,000	1,653,036	-	1,740,440
Six months ended 30th June 2015 (unaudited)					
Interest income received from related parties	-	122	5,855	192	6,169
Interest expenses paid to related parties	1,183	1,791	6,198	3,831	13,003

Note: Include key management personnel and Directors of the Bank and the ultimate holding company, their close family members and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel or Directors.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Related party transactions (Continued)

Key management personnel compensation

The compensation for Directors and key management personnel of the Bank is as follows:

	Six months ended 30th June 2016 (unaudited)	Six months ended 30th June 2015 (unaudited)
Salaries and other short-term employee benefits	26,987	24,089

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1 Liquidity maintenance ratio

	30th June 2016	30th June 2015
Liquidity maintenance ratio ('LMR')	<u>50.5%</u>	<u>46.5%</u>

The LMR is calculated as the simple average of each calendar month's average LMR for the six months of financial period of the Bank's Hong Kong offices, overseas branches, Shacom Investment Limited and Shacom Assets Investments Limited computed in accordance with the Banking (Liquidity) Rules.

The Group's liquidity is managed by the Treasury Division and monitored by the Asset and Liability Committee and the Risk Management Committee in accordance with the guidelines and procedures laid down in the liquidity management policy approved by the Board of Directors, which have regard to a variety of factors, including liquidity maintenance ratio, loan to deposit ratio, liquidity cushion, maturity mismatch profile, diversity and stability of the deposit base and ability to borrow in the interbank market to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

The Group's liquidity management process, as carried out within the Group and monitored by management, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity maintenance ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

The Group conducts stress testing regularly to analyse liquidity risk in accordance with the Supervisory Policy Manual ('SPM') LM-2 'Sound Systems and Controls for Liquidity Risk Management' of the HKMA. The Group's stress tests are conducted with hypothetical as well as historical assumptions. Both funding and market liquidity risks are addressed. The Group also performs reverse stress-testing in accordance with the HKMA's SPM IC-5 'Stress-testing'. It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses.

The Group uses results of stress-testing and reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stress and vulnerability which the Bank might face.

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy

The calculation of the capital adequacy ratios as at 30th June 2016 and 31st December 2015 is based on the Banking (Capital) Rules ('BCR'). The capital adequacy ratios represent the consolidated ratios of the Bank's Hong Kong offices, overseas branches, Shacom Property (CA) Inc., Shacom Property (NY) Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited, Right Honour Investments Limited, Glory Step Investments Limited, Silver Wisdom Investments Limited, Shacom Insurance Brokers Limited, KCC 23F Limited, KCC 25F Limited, and KCC 26F Limited computed in accordance with Section 3C(1) of the BCR.

For accounting purposes, the basis of consolidation is described in Note 5 to the Group Interim Financial Disclosure Statement.

The table below presents the balance sheets based on the accounting scope of consolidation and the regulatory scope of consolidation respectively as at 30th June 2016.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with banks	24,068,489	24,063,884
Placements with and loans and advances to banks	21,946,722	21,946,722
Loans and advances to customers	63,307,642	63,307,642
Financial assets held for trading	407,320	375,586
Derivative financial instruments	217,878	217,878
Available-for-sale investments	42,596,996	42,503,596
Held-to-maturity investments	2,518,190	2,518,190
Investments in joint ventures	328,488	116,000
Investments in and amounts due from subsidiaries	-	187,468
Properties and equipment	2,675,943	2,655,632
Investment properties	1,028,853	1,056,776
Deferred income tax assets	44,432	44,432
Other assets	1,339,858	1,279,878
Total assets	160,480,811	160,273,684
Liabilities		
Deposits and balances from banks	6,193,950	6,193,950
Deposits from customers	129,224,307	129,224,307
Derivatives financial instruments	158,582	158,582
Amounts due to subsidiaries	-	303,913
Other liabilities	1,622,235	1,490,150
Provisions	70,021	69,065
Current income tax liabilities	157,853	157,409
Deferred income tax liabilities	325,981	325,864
Total liabilities	137,752,929	137,923,240
Equity		
Share capital	2,000,000	2,000,000
Retained earnings	10,941,029	10,676,824
Reserves	9,717,054	9,673,620
Non-controlling interests	69,799	-
Total equity	22,727,882	22,350,444
Total equity and liabilities	160,480,811	160,273,684

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

The table below shows the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Capital Disclosures Template as at 30th June 2016.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
Assets			
Cash and balances with banks	24,068,489	24,063,884	
Placements with and loans and advances to banks	21,946,722	21,946,722	
Loans and advances to customers	63,307,642	63,307,642	
<i>of which: collective impairment allowances reflected in regulatory capital</i>		254,357	(1)
Financial assets held for trading	407,320	375,586	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		-	(2)
Derivative financial instruments	217,878	217,878	
Available-for-sale investments	42,596,996	42,503,596	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		1,125,961	(3)
Held-to-maturity investments	2,518,190	2,518,190	
Investments in joint ventures	328,488	116,000	
Investments in and amounts due from subsidiaries	-	187,468	
Properties and equipment	2,675,943	2,655,632	
Investment properties	1,028,853	1,056,776	
Deferred income tax assets	44,432	44,432	(4)
Other assets	1,339,858	1,279,878	
Total assets	160,480,811	160,273,684	
Liabilities			
Deposits and balances from banks	6,193,950	6,193,950	
Deposits from customers	129,224,307	129,224,307	
Derivatives financial instruments	158,582	158,582	
Amounts due to subsidiaries	-	303,913	
Other liabilities	1,622,235	1,490,150	
Provisions	70,021	69,065	
Current income tax liabilities	157,853	157,409	
Deferred income tax liabilities	325,981	325,864	
Total liabilities	137,752,929	137,923,240	
Equity			
Share capital	2,000,000	2,000,000	
<i>of which: paid-in share capital</i>		2,000,000	(5)
Retained earnings	10,941,029	10,676,824	
<i>of which: retained earnings</i>		10,676,824	(6)
Reserves	9,717,054	9,673,620	
<i>of which: accumulated other comprehensive income (loss), other than regulatory reserve</i>		8,977,409	(7)
<i>regulatory reserve</i>		696,211	(8)
Non-controlling interests	69,799	-	
Total equity	22,727,882	22,350,444	
Total equity and liabilities	160,480,811	160,273,684	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

The Bank has already applied full capital deductions under the BCR. The Capital Disclosures Template as at 30th June 2016 is shown below.

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(5)
2	Retained earnings	10,676,824	(6)
3	Disclosed reserves	9,673,620	(7)+(8)
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory deductions	22,350,444	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liability)	-	
9	Other intangible assets (net of associated deferred tax liability)	-	
10	Deferred tax assets net of deferred tax liabilities	44,432	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Gain-on-sale arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	1,046,556	(2) + (3) - (9)
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	696,211	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	696,211	(8)
26c	Securitization exposures specified in a notice given by the Monetary Authority	-	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
CET1 capital: regulatory deductions(Continued)			
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	1,787,199	
29	CET1 capital	20,563,245	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Capital instruments subject to phase out arrangements from AT1 capital	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements	-	
36	AT1 capital before regulatory deductions	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (Tier 1 = CET1 + AT1)	20,563,245	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	Capital instruments subject to phase out arrangements from Tier 2 capital	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	of which: capital instruments issued by subsidiaries subject to phase out arrangements	-	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	950,568	(1) + (8)
51	Tier 2 capital before regulatory deductions	950,568	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	79,405	(9)
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57	Total regulatory deductions to Tier 2 capital	79,405	
58	Tier 2 capital	871,163	
59	Total capital (Total capital = Tier 1 + Tier 2)	21,434,408	
60	Total risk weighted assets	111,995,261	
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	18.4%	
62	Tier 1 capital ratio	18.4%	
63	Total capital ratio	19.1%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	5.5%	
65	of which: capital conservation buffer requirement	0.625%	
66	of which: bank specific countercyclical buffer requirement	0.4%	
67	of which: G-SIB and D-SIB buffer requirement	0.0%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	13.9%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,160,980	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	374,756	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	950,568	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	1,281,369	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	-	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	-	

Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
	Deferred tax assets net of deferred tax liabilities ('DTA')	44,432	-
10	<p>Explanation</p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an authorised institution is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.</p> <p>The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for mortgage servicing rights, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.</p>		
<p>Remarks:</p> <p>The amount of the 10%/15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.</p>			

Abbreviations:

CET1 = Common Equity Tier 1

AT1 = Additional Tier 1

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

The table below presents the balance sheets based on the accounting scope of consolidation and the regulatory scope of consolidation respectively as at 31st December 2015.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with banks	34,840,728	34,838,164
Placements with and loans and advances to banks	14,268,484	14,268,484
Loans and advances to customers	64,100,702	64,100,702
Financial assets held for trading	432,655	400,010
Derivative financial instruments	224,712	224,712
Available-for-sale investments	38,557,109	38,442,147
Held-to-maturity investments	2,508,464	2,508,464
Investments in joint ventures	304,440	116,000
Investments in and amounts due from subsidiaries	-	187,096
Properties and equipment	2,637,660	2,616,078
Investment properties	995,610	1,023,724
Deferred income tax assets	47,571	47,571
Other assets	695,147	654,140
Total assets	159,613,282	159,427,292
Liabilities		
Deposits and balances from banks	5,988,205	5,988,205
Deposits from customers	129,204,911	129,204,911
Derivatives financial instruments	226,614	226,614
Amounts due to subsidiaries	-	273,301
Other liabilities	1,072,347	964,759
Provisions	96,049	94,246
Current income tax liabilities	92,263	92,104
Deferred income tax liabilities	292,254	292,081
Total liabilities	136,972,643	137,136,221
Equity		
Share capital	2,000,000	2,000,000
Retained earnings	11,003,984	10,754,718
Reserves	9,568,495	9,536,353
Non-controlling interests	68,160	-
Total equity	22,640,639	22,291,071
Total equity and liabilities	159,613,282	159,427,292

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

The table below shows the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Capital Disclosures Template as at 31st December 2015.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
Assets			
Cash and balances with banks	34,840,728	34,838,164	
Placements with and loans and advances to banks	14,268,484	14,268,484	
Loans and advances to customers	64,100,702	64,100,702	
<i>of which: collective impairment allowances reflected in regulatory capital</i>		255,796	(1)
Financial assets held for trading	432,655	400,010	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		4,520	(2)
Derivative financial instruments	224,712	224,712	
Available-for-sale investments	38,557,109	38,442,147	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		1,192,253	(3)
Held-to-maturity investments	2,508,464	2,508,464	
Investments in joint ventures	304,440	116,000	
Investments in and amounts due from subsidiaries	-	187,096	
Properties and equipment	2,637,660	2,616,078	
Investment properties	995,610	1,023,724	
Deferred income tax assets	47,571	47,571	(4)
Other assets	695,147	654,140	
Total assets	159,613,282	159,427,292	
Liabilities			
Deposits and balances from banks	5,988,205	5,988,205	
Deposits from customers	129,204,911	129,204,911	
Derivatives financial instruments	226,614	226,614	
Amounts due to subsidiaries	-	273,301	
Other liabilities	1,072,347	964,759	
Provisions	96,049	94,246	
Current income tax liabilities	92,263	92,104	
Deferred income tax liabilities	292,254	292,081	
Total liabilities	136,972,643	137,136,221	
Equity			
Share capital	2,000,000	2,000,000	
<i>of which: paid-in share capital</i>		2,000,000	(5)
Retained earnings	11,003,984	10,754,718	
<i>of which: retained earnings</i>		10,754,718	(6)
Reserves	9,568,495	9,536,353	
<i>of which: accumulated other comprehensive income (loss), other than regulatory reserve</i>		8,839,803	(7)
<i>regulatory reserve</i>		696,550	(8)
Non-controlling interests	68,160	-	
Total equity	22,640,639	22,291,071	
Total equity and liabilities	159,613,282	159,427,292	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

The Bank has already applied full capital deductions under the BCR. The Capital Disclosures Template as at 31st December 2015 is shown below.

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(5)
2	Retained earnings	10,754,718	(6)
3	Disclosed reserves	9,536,353	(7)+(8)
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory deductions	22,291,071	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liability)	-	
9	Other intangible assets (net of associated deferred tax liability)	-	
10	Deferred tax assets net of deferred tax liabilities	47,571	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Gain-on-sale arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	1,114,463	(2) + (3) - (9)
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	696,550	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	696,550	(8)
26c	Securitization exposures specified in a notice given by the Monetary Authority	-	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
CET1 capital: regulatory deductions (Continued)			
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	1,858,584	
29	CET1 capital	20,432,487	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Capital instruments subject to phase out arrangements from AT1 capital	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements	-	
36	AT1 capital before regulatory deductions	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (Tier 1 = CET1 + AT1)	20,432,487	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	Capital instruments subject to phase out arrangements from Tier 2 capital	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	of which: capital instruments issued by subsidiaries subject to phase out arrangements	-	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	952,346	(1) + (8)
51	Tier 2 capital before regulatory deductions	952,346	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	82,310	(9)
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57	Total regulatory deductions to Tier 2 capital	82,310	
58	Tier 2 capital	870,036	
59	Total capital (Total capital = Tier 1 + Tier 2)	21,302,523	
60	Total risk weighted assets	106,806,068	
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	19.1%	
62	Tier 1 capital ratio	19.1%	
63	Total capital ratio	19.9%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.5%	
65	of which: capital conservation buffer requirement	0.0%	
66	of which: bank specific countercyclical buffer requirement	0.0%	
67	of which: G-SIB and D-SIB buffer requirement	0.0%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	14.6%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,154,695	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	378,136	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	952,346	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	1,218,677	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	-	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	-	

Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
	Deferred tax assets net of deferred tax liabilities ('DTA')	47,571	-
10	<p>Explanation</p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an authorised institution is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.</p> <p>The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for mortgage servicing rights, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.</p>		
<p>Remarks:</p> <p>The amount of the 10%/15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.</p>			

Abbreviations:

CET1 = Common Equity Tier 1
AT1 = Additional Tier 1

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2 Capital structure and adequacy (Continued)

The Main Features Template as at 30th June 2016 and 31st December 2015 is shown below:

1	Issuer	Shanghai Commercial Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Laws of Hong Kong
	Regulatory treatment	
4	Transitional Basel III rules [‡]	NA
5	Post-transitional Basel III rules [‡]	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK\$2,000
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1951, 1968, 1969, 1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Footnotes:

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the BCR

+ Regulatory treatment of capital instruments not subject to transitional arrangement provided for in Schedule 4H of the BCR

* Include solo-consolidated

NA Not applicable

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3 Countercyclical Capital Buffer (CCyB) Ratio

CCyB ratio is calculated as the weighted average of the applicable jurisdictional CCyB ('JCCyB') ratio effective at the date for which the determination is made, in respect of the jurisdictions (including Hong Kong) where the Bank has private sector credit exposures. The weight to be attributed to a given jurisdiction's applicable CCyB ratio is the ratio of the Bank's aggregate risk-weighted amounts ('RWA') for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction where the location of the exposures is determined as far as possible on an ultimate risk basis to the sum of the Bank's aggregate RWA across all jurisdictions in which the Bank has private sector credit exposures.

Key drivers for the changes in exposure amounts include asset quality, credit growth and credit portfolio. The applicable JCCyB ratio for Hong Kong is determined by the HKMA based on the Initial Reference Calculator that is transparently calculated and made public, while the applicable JCCyB ratio in respect of a given jurisdiction outside Hong Kong may differ from the JCCyB ratio as determined by the relevant authority in that jurisdiction if the HKMA has determined and announced the application of a higher or lower rate.

The following table shows the CCyB ratio, the geographical breakdown of the RWA in relation to private sector credit exposures that are relevant to the calculation of CCyB ratio and the applicable JCCyB ratio corresponding to each jurisdiction for calculating CCyB ratio as at 30th June 2016.

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio of AI	CCyB ratio of AI	CCyB amount of AI
	%	HK\$'000		
1 Hong Kong	0.625%	47,243,652		
2 Mainland China	0.000%	3,993,906		
3 Australia	0.000%	13,163		
4 Belgium	0.000%	526		
5 Bermuda	0.000%	332,821		
6 Brazil	0.000%	9,572		
7 Cambodia	0.000%	277		
8 Canada	0.000%	28,143		
9 Cayman Islands	0.000%	529,179		
10 Chile	0.000%	84		
11 Dominican Republic	0.000%	7		
12 Finland	0.000%	489		
13 France	0.000%	19,124		
14 Germany	0.000%	3,543		
15 India	0.000%	1,065		
16 Indonesia	0.000%	2,441		
17 Italy	0.000%	1,780		
18 Japan	0.000%	6,981		
19 Macao	0.000%	48,162		
20 Malaysia	0.000%	51		
21 Netherlands	0.000%	11		
22 New Zealand	0.000%	35,463		
23 Philippines	0.000%	2,806		
24 Portugal	0.000%	92		
25 Singapore	0.000%	316,254		
26 South Africa	0.000%	2,955		
27 South Korea	0.000%	93		
28 Sweden	1.500%	73		
29 Switzerland	0.000%	23		
30 Chinese Taipei	0.000%	877,226		
31 Thailand	0.000%	10,292		
32 United Kingdom	0.000%	460,968		
33 United States	0.000%	15,634,167		
34 West Indies UK	0.000%	715,545		
Total		70,290,934	0.42%	295,274

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

4 Leverage ratio

The leverage ratios represent the consolidated ratios computed in the same regulatory consolidation basis as the capital adequacy ratio. The table below presents the Summary Comparison Table as at 30th June 2016 and 31st December 2015.

Item	Leverage ratio framework	
	30th June 2016	31st December 2015
1 Total consolidated assets as per published financial statements	160,480,811	159,613,282
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(207,127)	(185,990)
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4 Adjustments for derivative financial instruments	495,087	534,655
5 Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	9,302,871	9,136,510
7 Other adjustments	(1,532,842)	(1,602,788)
8 Leverage ratio exposure	168,538,800	167,495,669

The Leverage Ratio Common Disclosure Template as at 30th June 2016 and 31st December 2015 is shown below:

Item	Leverage ratio framework	
	30th June 2016	31st December 2015
On-balance sheet exposures		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	160,310,163	159,458,376
2 Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(1,787,199)	(1,858,584)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	158,522,964	157,599,792
Derivative exposures		
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	217,878	224,712
5 Add-on amounts for PFE associated with all derivatives transactions	495,087	534,655
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7 Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-	-
8 Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-	-
9 Adjusted effective notional amount of written credit derivatives	-	-
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-	-
11 Total derivative exposures (sum of lines 4 to 10)	712,965	759,367

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

4 Leverage ratio (Continued)

Item	Leverage ratio framework		
	30th June 2016	31st December 2015	
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	45,143,921	44,431,986
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(35,841,050)	(35,295,476)
19	Off-balance sheet items (sum of lines 17 and 18)	9,302,871	9,136,510
Capital and total exposures			
20	Tier 1 capital	20,563,245	20,432,487
21	Total exposures (sum of lines 3, 11, 16 and 19)	168,538,800	167,495,669
Leverage ratio			
22	Basel III leverage ratio	12.20%	12.20%

Abbreviations:

CCP Central counterparty
CCR Counterparty credit risk
PFE Potential future exposure
SFT Securities financing transactions

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

5 International claims

The following table shows the Group's international claims by major country or geographical segment, each representing not less than 10% of the Group's total international claims. International claims refer to exposures to counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

As at 30th June 2016	Banks	Non-bank private sector			Total
		Official sector	Non-bank financial institutions	Non-financial private sector	
Developed countries	20,316,000	143,000	844,000	772,000	22,075,000
Offshore centres	5,208,000	12,000	1,150,000	13,531,000	19,901,000
- of which Hong Kong	5,027,000	12,000	924,000	11,620,000	17,583,000
Developing Asia-Pacific	46,685,000	39,000	29,000	2,905,000	49,658,000
- of which China	40,856,000	39,000	29,000	2,015,000	42,939,000
- of which Chinese Taipei	4,162,000	-	-	864,000	5,026,000

As at 31st December 2015	Banks	Non-bank private sector			Total
		Official sector	Non-bank financial institutions	Non-financial private sector	
Developed countries	11,950,000	210,000	167,000	821,000	13,148,000
Offshore centres	6,772,000	-	982,000	13,233,000	20,987,000
- of which Hong Kong	5,805,000	-	752,000	11,558,000	18,115,000
Developing Asia-Pacific	46,162,000	36,000	65,000	3,226,000	49,489,000
- of which China	34,535,000	36,000	65,000	2,209,000	36,845,000
- of which Chinese Taipei	10,268,000	-	-	972,000	11,240,000

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

6 Loans and advances

(a) Loans and advances by industry sector

The following table shows the breakdown of the Group's loans and advances (excluding trade bills and other eligible bills) by industry sector according to the usage of loans based on the categories and definitions set by the HKMA.

	30th June 2016		31st December 2015	
	Gross loans and advances	% covered by collateral	Gross loans and advances	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	2,919,159	49%	3,541,664	49%
- Property investment	9,018,219	96%	9,229,089	95%
- Financial concerns	744,981	96%	991,029	100%
- Stockbrokers	50,513	100%	37,288	100%
- Wholesale and retail trade	886,701	90%	1,004,119	89%
- Manufacturing	2,043,815	76%	2,277,647	77%
- Transport and transport equipment	569,237	97%	717,464	92%
- Recreational activities	147,848	91%	182,455	69%
- Information technology - telecommunication	93,461	99%	90,085	99%
- Hotels, boarding houses and catering	849,241	97%	813,823	96%
- Others	4,256,136	84%	4,330,653	92%
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	119,895	100%	133,099	100%
- Loans for the purchase of other residential properties	4,576,211	100%	4,710,363	100%
- Credit card advances	204,619	0%	229,251	0%
- Others	6,195,453	93%	6,443,416	92%
Trade finance	6,350,220	71%	5,762,436	74%
Loans for use outside Hong Kong	23,990,256	88%	22,909,443	89%
	<u>63,015,965</u>	<u>86%</u>	<u>63,403,324</u>	<u>87%</u>

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

6 Loans and advances (Continued)

(b) Loans and advances by geographical area

The information concerning the breakdown of the gross amount of loans and advances to customers by country or geographical area is derived according to the location of the customers after taking into account any transfer of risk. In general, such transfer of risk takes place if the loans and advances are guaranteed by a party in a country which is different from that of the customers.

As at 30th June 2016	Gross loans and advances to customers	Individually assessed impaired loans and advances	Loans and advances overdue for over three months	Total individual impairment allowances	Total collective impairment allowances
Hong Kong	42,599,193	284,551	141,723	23,172	171,756
Mainland China	4,157,933	1,608	1,608	1,096	15,974
United States	13,996,964	10,736	8,202	43	55,754
Others	2,832,220	1,866	-	-	10,873
	<u>63,586,310</u>	<u>298,761</u>	<u>151,533</u>	<u>24,311</u>	<u>254,357</u>
% of total loans and advances to customers		<u>0.47</u>			
Fair value of collateral		<u>607,636</u>			

As at 31st December 2015	Gross loans and advances to customers	Individually assessed impaired loans and advances	Loans and advances overdue for over three months	Total individual impairment allowances	Total collective impairment allowances
Hong Kong	42,489,244	252,122	166,908	18,430	172,021
Mainland China	5,585,611	-	-	-	20,106
United States	13,242,902	248,200	8,398	989	51,898
Others	3,058,165	1,226	3,409	5	11,771
	<u>64,375,922</u>	<u>501,548</u>	<u>178,715</u>	<u>19,424</u>	<u>255,796</u>
% of total loans and advances to customers		<u>0.78</u>			
Fair value of collateral		<u>914,115</u>			

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

6 Loans and advances (Continued)

(c) Loans and advances overdue for more than 3 months

	30th June 2016		31st December 2015	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Gross loans and advances which have been overdue for:				
- six months or less but over three months	20,107	0.03	16,145	0.03
- one year or less but over six months	5,464	0.01	83,410	0.13
- over one year	125,962	0.20	79,160	0.12
	<u>151,533</u>	<u>0.24</u>	<u>178,715</u>	<u>0.28</u>
Current market value of collateral	<u>266,951</u>		<u>315,960</u>	
Covered portion by collateral	<u>130,551</u>		<u>156,933</u>	
Uncovered portion by collateral	<u>20,982</u>		<u>21,782</u>	
Individually assessed impairment allowances	<u>20,068</u>		<u>15,914</u>	

Collateral held against such loans and advances mainly include mortgages over properties.

(d) Rescheduled loans and advances net of amounts included in loans and advances overdue for more than 3 months

	30th June 2016		31st December 2015	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	<u>32,071</u>	<u>0.05</u>	<u>19,565</u>	<u>0.03</u>

(e) Repossessed assets

During the period, the Group had obtained asset by taking possession of collateral held as security, as follows:

	Carrying amount	
	30th June 2016	31st December 2015
Nature of assets		
Industrial property	-	3,850
Residential properties	<u>1,039</u>	-
	<u>1,039</u>	<u>3,850</u>

As at 30th June 2016, the fair value of the repossessed assets amounted to HK\$2,600,000 (31st December 2015: HK\$3,850,000).

Repossessed asset is sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed asset is classified in the statement of financial position within 'Other assets'.

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

7 Non-bank mainland exposures

The Bank Types of counterparties	30th June 2016			31st December 2015		
	On-balance sheet exposures	Off-balance sheet exposures	Total	On-balance sheet exposures	Off-balance sheet exposures	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures	2,053,526	127,579	2,181,105	1,999,232	29,681	2,028,913
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	8,741	-	8,741	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	2,995,517	841,581	3,837,098	2,666,392	788,832	3,455,224
4. Other entities of central government not reported in item 1 above	634,122	-	634,122	626,137	-	626,137
5. Other entities of local governments not reported in item 2 above	-	-	-	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4,758,542	1,117,331	5,875,873	3,872,365	762,751	4,635,116
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	597,845	40	597,885	513,103	88	513,191
Total	11,048,293	2,086,531	13,134,824	9,677,229	1,581,352	11,258,581
Total assets after provision	149,786,270			149,656,291		
On-balance sheet exposures as percentage of total assets	7.38%			6.47%		

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

8 Currency concentrations

As at 30th June 2016	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long / (short) position	Net structural position
Equivalent in Hong Kong dollars						
US Dollars	51,224,000	(51,395,000)	32,890,000	(23,590,000)	9,129,000	5,785,000
Pound Sterling	3,651,000	(2,929,000)	857,000	(1,566,000)	13,000	16,000
Renminbi	17,683,000	(16,756,000)	8,696,000	(8,502,000)	1,121,000	1,332,000
Canadian Dollars	1,510,000	(1,507,000)	17,000	(21,000)	(1,000)	-
Australian Dollars	3,856,000	(3,835,000)	1,252,000	(1,285,000)	(12,000)	-
Other currencies and gold	2,631,000	(2,598,000)	2,155,000	(2,176,000)	12,000	-
	<u>80,555,000</u>	<u>(79,020,000)</u>	<u>45,867,000</u>	<u>(37,140,000)</u>	<u>10,262,000</u>	<u>7,133,000</u>
As at 31st December 2015	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long / (short) position	Net structural position
Equivalent in Hong Kong dollars						
US Dollars	54,699,000	(49,089,000)	39,797,000	(27,952,000)	17,455,000	5,687,000
Pound Sterling	3,156,000	(3,145,000)	335,000	(331,000)	15,000	28,000
Renminbi	18,440,000	(16,811,000)	6,627,000	(7,280,000)	976,000	1,309,000
Canadian Dollars	1,406,000	(1,391,000)	67,000	(82,000)	-	-
Australian Dollars	3,703,000	(3,871,000)	1,113,000	(952,000)	(7,000)	-
Other currencies and gold	2,620,000	(2,682,000)	1,623,000	(1,544,000)	17,000	-
	<u>84,024,000</u>	<u>(76,989,000)</u>	<u>49,562,000</u>	<u>(38,141,000)</u>	<u>18,456,000</u>	<u>7,024,000</u>

Net structural positions include structural positions of the Bank's Hong Kong offices, overseas branches and subsidiaries.

Structural assets and liabilities include:

- investments in properties and equipment, net of depreciation;
- capital, statutory reserves and unremitted profits of overseas branches; and
- investments in overseas subsidiaries and related company.

The above disclosure is based on the significance of the Group's foreign currency exposures of the current period.

REVIEW OF OPERATIONS

In the first half of 2016, banks in Hong Kong were faced with continued pressure on generating revenue due to persistent weak loan demand, market volatility and the anticipation of a 'lower for longer' interest rate period in a below-trend global economic environment.

For the first six months of 2016, Shanghai Commercial Bank Limited (the 'Bank') reported a consolidated profit after tax of HK\$879.4 million, a decrease of HK\$153.1 million or 14.8%, as compared with that of the same period last year. Net interest income decreased slightly by 0.2% while net fee and commission income dropped by 26.3% mainly attributable to the reduced income contributions from securities brokerage, wealth management and bills business which were severely challenged by the poor market momentum, despite life insurance commission recorded a notable rise of 66.7%. The overall loan-to-deposit ratio decreased marginally from 49.8% at the end of 2015 to 49.2% as loans and advances declined by 1.2% to HK\$63.3 billion, while customer deposits maintained at the same level. Average net interest margin at 1.63% was 6 basis points lower than that of 1.69% for the same period last year and 1 basis point lower than the 2015 yearly average of 1.64%, mainly due to lower average yield from interbank placements. The cost-to-income ratio was 38% against the 2015 yearly average of 35.2%, attributable to higher expenses on human resources and premises related charges for further streamlining the backend supporting operations.

The total comprehensive income attributable to equity holders of HK\$1,025.6 million as at the end of June 2016 was HK\$441.8 million or 30.1% lower than that of the same period last year mainly due to revaluation of the debt and equity investments following CNY currency depreciation. Total assets at HK\$160.5 billion and shareholders' funds at HK\$22.7 billion were 0.6% and 0.4% respectively higher as compared with that at last year end. The Bank continued to maintain sound liquidity levels with the average liquidity maintenance ratio at 50.5% and comfortable capital adequacy ratio at 19.1% for the first half of the year.

The Bank has continued allocating resources and efforts in broadening product and service range and to uphold the Bank's motto, 'For Personalized Services' while diligently managing anticipated risks emanating from the markets and complying with the increasing regulatory requirements. We recognize the change to adapt customer's behaviour towards digital banking and are proactively yet prudently enhancing transaction convenience and customer experience as well as ensuring data security and increasing their loyalty by introducing the first-in-town 'My Smart Card' embedding functions of a security token, ATM withdrawal and a credit card all into one, offering 'SCB JETCO Pay' which is a peer-to-peer money transfer service for Hong Kong customers as well as the 'Mobile Futures Trading' during the first half of 2016.

To optimize our branch network for relationship deepening opportunities and maintaining growth momentum, the Bank's Connaught Road Branch commenced business in May 2016 to focus on high net worth customers. Apart from making more inroads for revenue, we also strive to strengthen our middle and back office functions, including internal controls, compliance, and risk management for credit, anti-money laundering, Foreign Account Tax Compliance Act (FATCA), cyber security, and etc., to reinforce our Three Lines of Defence as well as streamlining our cost structure. The relocation of the backend and supporting units, including the data centre, to our self-owned premises at Kowloon Commerce Centre in Kwai Chung is scheduled to take place in the third quarter of 2016 and we will celebrate our return to our Headquarters, Shanghai Commercial Bank Tower in Central in October 2016.

We continue to foster our tri-bank alliance with Bank of Shanghai in Mainland China and our parent bank, The Shanghai Commercial & Savings Bank, Ltd. in Taiwan. We will collaborate closely in exploring and seizing opportunities presented by the One Belt One Road Initiative and the Go Out Policy spearheaded by the China government. We will continuously gear up resources and manpower at the three branches in China to embrace opportunities as they emerge.

Our U.S. branches continued to record satisfactory performance, benefitted from the regaining of growth momentum of the U.S. economy. Meanwhile, the Brexit Referendum had casted uncertainties over the global economic and financial developments, especially in U.K. Despite the relevant implications on the Bank and London Branch are immaterial, we will stay vigilant on further developments in this regard.

While developing and implementing business strategies, we acknowledge our corporate social responsibility (CSR). We are always committed to 'Serving the Community' through donations, supporting and caring for the needy, participating in volunteer services and charitable activities, and improving the well-being and work-life balance of our staff. We will continue to step up our efforts in fulfilling our responsibilities in the areas of environmental, social and governance (ESG) through different initiatives.

We trust the Bank, being firmly rooted in Hong Kong for over 65 years, will continue to create value for its stakeholders based on its proven ability in sailing through the various downturns in this history. We remain well positioned for growth and will continue to expand and invest in our teams to develop new clients and build new relationships. At the same time, we have been steadily investing in technology, expanding our sales force and improving infrastructure that are helping us better serve our customers and grow our business. We will strengthen our existing competitive advantages, enhance our capital planning and management, adhere to high standards of compliance, exercise prudent risk management controls and foster a vibrant corporate culture in order to achieve sustainable growth.

STATEMENT OF COMPLIANCE

The above information is prepared in accordance with and fully complies with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

Stephen Ching Yen Lee
Chairman

David Sek-chi Kwok
Managing Director & Chief Executive

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SHANGHAI COMMERCIAL BANK LIMITED (incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 1 to 33, which comprises the condensed consolidated statement of financial position of Shanghai Commercial Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') as at 30th June 2016 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 'Interim Financial Reporting'.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17th August 2016