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

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

Contents

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**Six months ended 30 June 2018 (unaudited)**	Six months ended 30 June 2017 (unaudited)
Interest income	6	**2,545,781**	2,048,597
Interest expense	6	**(789,969)**	(565,274)
Net interest income		**1,755,812**	1,483,323
Fee and commission income	7	**472,278**	386,113
Fee and commission expense	7	**(27,236)**	(21,617)
Net fee and commission income		**445,042**	364,496
Net trading income	8	**68,309**	275,579
Net gains from disposal of investment securities at fair value through other comprehensive income		**18,864**	-
Net gains from disposal of available-for-sale investments		**-**	24,259
Dividend income from investment securities at fair value through other comprehensive income		**140,108**	-
Dividend income from available-for-sale investments		**-**	105,199
Net losses from disposal of equipment		**(2,840)**	(1,255)
Other operating income	9	**75,875**	73,853
Net earned insurance premium	10	**22,456**	20,783
Net insurance claims incurred and movement in policyholders' liabilities	10	**(10,348)**	(10,426)
Operating expenses	11	**(776,397)**	(744,380)
Net impairment losses on financial assets	12	**(17,246)**	(46,412)
Operating profit		**1,719,635**	1,545,019
Share of net profits of joint ventures		**28,566**	31,042
Profit before income tax		**1,748,201**	1,576,061
Income tax expense	13	**(320,020)**	(307,275)
Profit for the period		**1,428,181**	1,268,786
Attributable to:			
Equity holders of the Bank		**1,426,215**	1,266,153
Non-controlling interests		**1,966**	2,633
		1,428,181	1,268,786

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Six months ended 30 June 2018 (unaudited)**	Six months ended 30 June 2017 (unaudited)
Profit for the period		**1,428,181**	1,268,786
Other comprehensive income			
<u>Items that will not be reclassified to profit or loss</u>			
Net gains on equity investments at fair value through other comprehensive income			
Changes in the fair value of equity investments at fair value through other comprehensive income		**211,027**	-
Deferred income tax		**407,585**	-
<u>Items that may be reclassified to profit or loss</u>			
Exchange differences on translation of overseas operations		**(19,811)**	72,874
Net gains/(losses) on investment securities at fair value through other comprehensive income			
Changes in the fair value of investment securities at fair value through other comprehensive income		**(149,502)**	-
Fair value changes transferred to profit or loss on disposal of investment securities at fair value through other comprehensive income	25	**(18,864)**	-
Deferred income tax		**27,804**	-
Net gains/(losses) on available-for-sale investments			
Fair value changes in available-for-sale investments		**-**	883,595
Fair value changes transferred to profit or loss on disposal of available-for-sale investments		**-**	(24,259)
Deferred income tax		**-**	(141,791)
Share of reserves of joint ventures	25	**(9,567)**	6,103
Other comprehensive income for the period, net of tax		**448,672**	796,522
Total comprehensive income for the period		**1,876,853**	2,065,308
Attributable to:			
Equity holders of the Bank		**1,875,016**	2,062,544
Non-controlling interests		**1,837**	2,764
Total comprehensive income for the period		**1,876,853**	2,065,308

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2018 (unaudited)**	31 December 2017 (audited) Restated
ASSETS			
Cash and balances with banks	14	**23,255,768**	28,656,612
Placements with and loans and advances to banks	15	**14,933,023**	17,549,603
Loans and advances to customers	16	**83,661,578**	78,114,200
Financial assets at fair value through profit or loss		**1,834,283**	-
Financial assets held for trading		**-**	1,969,884
Derivative financial instruments	17	**257,520**	141,006
Investment securities at fair value through other comprehensive income		**54,700,848**	-
Available-for-sale investments		**-**	49,791,624
Investment securities at amortised cost		**2,425,690**	-
Held-to-maturity investments		**-**	2,384,613
Properties for sale	18	**380,916**	373,529
Investments in joint ventures	19	**351,543**	338,914
Properties and equipment	20	**2,365,257**	2,389,569
Investment properties	21	**1,016,629**	1,020,504
Deferred income tax assets	24	**86,662**	40,523
Other assets		**2,301,068**	1,760,007
TOTAL ASSETS		**187,570,785**	184,530,588
LIABILITIES			
Deposits and balances from banks		**7,569,415**	6,753,913
Deposits from customers	22	**147,987,523**	146,644,694
Derivative financial instruments	17	**262,857**	146,196
Subordinated debt		**1,948,206**	1,940,308
Other liabilities		**2,879,282**	2,538,940
Provisions		**109,965**	156,571
Current income tax liabilities		**341,917**	422,206
Deferred income tax liabilities	24	**26**	382,438
TOTAL LIABILITIES		**161,099,191**	158,985,266
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital		**2,000,000**	2,000,000
Retained earnings		**13,921,520**	13,446,235
Reserves	25	**10,471,647**	10,022,093
		26,393,167	25,468,328
Non-controlling interests in equity		**78,427**	76,994
TOTAL EQUITY		**26,471,594**	25,545,322
TOTAL EQUITY AND LIABILITIES		**187,570,785**	184,530,588

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders			Non-controlling interests	Total equity
	Note	Share capital	Reserves	Retained earnings (including proposed dividends)		
As at 1 January 2017		2,000,000	10,357,664	11,950,747	71,280	24,379,691
Profit for the period		-	-	1,266,153	2,633	1,268,786
Other comprehensive income						
Fair value gains, net of tax:						
- available-for-sale investments		-	714,604	-	131	714,735
Currency translation difference arising from overseas operations		-	45,149	27,725	-	72,874
Currency exchange difference arising from reserves		-	27,069	-	-	27,069
Share of reserves of joint ventures		-	6,103	-	-	6,103
Fair value changes transferred to profit or loss on disposal of available-for-sale investments		-	(24,259)	-	-	(24,259)
Total other comprehensive income		-	768,666	27,725	131	796,522
Payment of dividend relating to 2016		-	-	(940,000)	(400)	(940,400)
As at 30 June 2017 (unaudited)		2,000,000	11,126,330	12,304,625	73,644	25,504,599
Balance as at 31 December 2017 as originally presented		**2,000,000**	**10,022,093**	**13,446,235**	**76,994**	**25,545,322**
Change in accounting policy	3(c)	**-**	**5,977**	**(16,154)**	**(4)**	**(10,181)**
Restated as at 1 January 2018		**2,000,000**	**10,028,070**	**13,430,081**	**76,990**	**25,535,141**
Profit for the period		**-**	**-**	**1,426,215**	**1,966**	**1,428,181**
Other comprehensive income						
Fair value gains, net of tax:						
- Investment securities at fair value through other comprehensive income		**-**	**531,144**	**-**	**(129)**	**531,015**
Currency translation difference arising from overseas operations		**-**	**(25,035)**	**5,224**	**-**	**(19,811)**
Currency exchange difference arising from reserves		**-**	**(34,101)**	**-**	**-**	**(34,101)**
Share of reserves of joint ventures	25	**-**	**(9,567)**	**-**	**-**	**(9,567)**
Fair value changes transferred to profit or loss on disposal of investment securities at fair value through other comprehensive income	25	**-**	**(18,864)**	**-**	**-**	**(18,864)**
Total other comprehensive income		**-**	**443,577**	**5,224**	**(129)**	**448,672**
Payment of dividend relating to 2017		**-**	**-**	**(940,000)**	**(400)**	**(940,400)**
As at 30 June 2018 (unaudited)		**2,000,000**	**10,471,647**	**13,921,520**	**78,427**	**26,471,594**

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Six months ended 30 June 2018 (unaudited)**	Six months ended 30 June 2017 (unaudited) Restated
Cash flows from operating activities			
Profit before income tax		**1,748,201**	1,576,061
Share of net profits of joint ventures		**(28,566)**	(31,042)
Net impairment losses on financial assets	12	**17,246**	46,412
Depreciation expenses	11	**52,003**	62,920
Net losses from disposal of equipment		**2,840**	1,255
Net gains from disposal of investment securities at fair value through other comprehensive income (2017: available-for-sale investments)		**(18,864)**	(24,259)
Interest income on investment securities at amortised cost and fair value through other comprehensive income (2017: held-to-maturity and available-for-sale investments)	6	**(652,605)**	(549,891)
Interest expense on subordinated debt	6	**37,442**	-
Dividend income		**(140,108)**	(105,199)
Hong Kong profits tax paid		**(284,829)**	-
Overseas tax paid		**(133,297)**	(143,561)
Effect of exchange rate changes from investing and financing activities		**175,893**	(863,430)
Cash flows from operating activities before changes in operating assets and liabilities		**775,356**	(30,734)
Changes in operating assets and liabilities:			
- Net decrease in balances with banks with original maturity beyond 3 months		**2,606,220**	1,422,953
- Net decrease in placements with and loans and advances to banks with original maturity beyond 3 months		**2,659,736**	5,752,810
- Net decrease/(increase) in financial assets at fair value through profit or loss (2017: financial assets held for trading)		**139,970**	(509,612)
- Net decrease/(increase) in derivative financial instruments		**147**	(27,456)
- Net increase in loans and advances to customers		**(5,561,365)**	(8,910,761)
- Net (increase)/decrease in other assets		**(346,417)**	1,788
- Net increase in deposits and balances from banks		**815,502**	2,565,846
- Net increase in deposits from customers		**1,342,829**	5,657,695
- Net increase in other liabilities and provisions		**287,765**	757,173
Net cash flows from operating activities		**2,719,743**	6,679,702

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Note	**Six months ended 30 June 2018 (unaudited)**	Six months ended 30 June 2017 (unaudited) Restated
Cash flows from investing activities			
Interest received on investment securities at amortised cost and fair value through other comprehensive income (2017: held-to-maturity and available-for-sale investments)		**626,097**	541,322
Dividends received on investment securities at fair value through other comprehensive income (2017: available-for-sale investments)		**2,760**	2,700
Dividends received from joint ventures		**6,370**	3,850
Purchases of properties and equipment		**(26,404)**	(128,936)
Additions of investment properties		**(572)**	(806)
Additions of properties for sale		**(7,387)**	(4,664)
Proceeds from sale of equipment		**5**	95
Purchases of investment securities at fair value through other comprehensive income (2017: available-for-sale investments)		**(13,963,961)**	(9,672,565)
Purchases of investment securities at amortised cost (2017: held-to-maturity investments)		**(1,191,032)**	(2,347,362)
Proceeds from liquidation of a joint venture		**-**	2,633
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income (2017: available-for-sale investments)		**10,953,661**	8,197,536
Proceeds from redemption of investment securities at amortised cost (2017: held-to-maturity investments)		**1,153,798**	2,379,973
Net cash flows from investing activities		**(2,446,665)**	(1,026,224)
Cash flows from financing activities			
Interest paid on subordinated debt		**(36,910)**	-
Dividend paid to equity holders		**(940,000)**	(940,000)
Dividend paid to non-controlling interests		**(400)**	(400)
Net cash flows from financing activities		**(977,310)**	(940,400)
Net (decrease)/increase in cash and cash equivalents		**(704,232)**	4,713,078
Cash and cash equivalents as at 1 January		**27,720,636**	24,414,856
Effect of exchange rate changes on cash and cash equivalents		**(46,277)**	361,044
Cash and cash equivalents as at 30 June	26	**26,970,127**	29,488,978
Cash flows from operating, investing and financing activities included:			
Interest received		**2,535,158**	2,023,047
Interest paid		**(789,704)**	(486,657)

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 Shanghai Commercial Bank Tower, 12 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 15 August 2018.

2 Basis of preparation

This Group Interim Financial Disclosure Statement for the six months ended 30 June 2018 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 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the year ended 31 December 2017 that is included in the 2018 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 31 December 2017 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).

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies

Except as described below and Note 3(c)(iv), the accounting policies applied in the preparation of the 2018 Group Interim Financial Disclosure Statement are consistent with those used and described in the Group's audited annual financial statements for the year ended 31 December 2017.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 9 "Financial instruments". The impact of the adoption of HKFRS 9 is disclosed in Note 3(c).

The following standards which became effective for the accounting period beginning on or after 1 January 2018 did not have material impact on the Group's financial statements.

- HKFRS 15 "Revenue from contracts with customers" and the related amendments
- Amendments to HKAS 40 "Investment property"

(b) Amendments, new standards and interpretations issued but not yet effective for the period ended 30 June 2018:

The HKICPA has issued a few amendments, new standards and interpretations which are not yet effective for the period ended 30 June 2018 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
HKFRS 16 "Leases"	1 January 2019
HK(IFRIC) 23 "Uncertainty over income tax treatments"	1 January 2019
HKFRS 17 "Insurance contracts"	1 January 2021

The Group is assessing the financial impact of the amendments, new standards and interpretations and preparing for their implementation on effective dates.

HKFRS 16 "Leases"
HKFRS 16 "Leases" is effective for the accounting period beginning on or after 1 January 2019. The standard will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the lease item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly changed. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK$255,974,000 (see Note 27). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 17 "Insurance contracts"
HKFRS 17 "Insurance contracts" is effective for the accounting period beginning on or after 1 January 2021. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard and to replace the HKFRS 4 "Insurance contracts". The objective of HKFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. HKFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. The general model under HKFRS 17 requires an entity to measure an insurance contract at initial recognition at the total of the fulfilment cash flows and the contractual service margin. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. The Group is in the process of assessing the financial and disclosure impact on the adoption of the standard.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial instruments" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

The adoption of HKFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial instruments: disclosures".

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group.

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with HKAS 39 and HKFRS 9 as at 1 January 2018 are compared as follows:

	HKAS 39		**HKFRS 9**	
Financial assets	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Cash and balances with banks	Amortised cost (Loans and receivables)	28,300,931	Amortised cost	28,299,947
Placements with and loans and advances to banks	Amortised cost (Loans and receivables)	17,549,603	Amortised cost	17,548,993
Loans and advances to customers	Amortised cost (Loans and receivables)	78,114,200	Amortised cost	78,117,127
Financial assets at fair value through profit or loss	Fair value through profit or loss ("FVTPL") (Held for trading)	1,969,884	FVTPL	1,969,884
Derivative financial instruments	FVTPL (Held for trading)	141,006	FVTPL	141,006
Investment securities	Fair value through other comprehensive income ("FVOCI") (Available-for-sale)	49,787,255	FVOCI	49,787,255
	FVOCI (Available-for-sale)	4,369	FVTPL	4,369
	Amortised cost (Held-to-maturity)	2,384,613	Amortised cost	2,384,609
Other assets	Amortised cost (Loans and receivables)	1,290,899	Amortised cost	1,290,518
	FVTPL (Held for trading)	5,224	FVTPL	5,224
	FVOCI (Available-for-sale)	375,385	FVOCI	375,385
	Amortised cost (Held-to-maturity)	2,251	Amortised cost	2,251

There were no changes to the classification and measurement of financial liabilities.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9

The table below reflects the impact of adopting HKFRS 9 on the Group's opening statement of financial position as at 1 January 2018.

	HKAS 39 31 December 2017	Impact of classification and measurement	Impact of expected credit losses ("ECL")	Impact of deferred tax	HKFRS 9 1 January 2018
ASSETS					
Cash and balances with banks	28,656,612	-	(984)	-	28,655,628
Placements with and loans and advances to banks	17,549,603	-	(610)	-	17,548,993
Loans and advances to customers	78,114,200	-	2,927	-	78,117,127
Financial assets at fair value through profit or loss	-	1,974,253	-	-	1,974,253
Financial assets held for trading	1,969,884	(1,969,884)	-	-	-
Derivative financial instruments	141,006	-	-	-	141,006
Investment securities at fair value through other comprehensive income	-	49,787,255	-	-	49,787,255
Available-for-sale investments	49,791,624	(49,791,624)	-	-	-
Investment securities at amortised cost	-	2,384,613	(4)	-	2,384,609
Held-to-maturity investments	2,384,613	(2,384,613)	-	-	-
Properties for sale	373,529	-	-	-	373,529
Investments in joint ventures	338,914	-	-	-	338,914
Properties and equipment	2,389,569	-	-	-	2,389,569
Investment properties	1,020,504	-	-	-	1,020,504
Deferred income tax assets	40,523	-	-	(18,144)	22,379
Other assets	1,760,007	-	(381)	-	1,759,626
TOTAL ASSETS	184,530,588	-	948	(18,144)	184,513,392
LIABILITIES					
Deposits and balances from banks	6,753,913	-	-	-	6,753,913
Deposits from customers	146,644,694	-	-	-	146,644,694
Derivative financial instruments	146,196	-	-	-	146,196
Subordinated debt	1,940,308	-	-	-	1,940,308
Other liabilities	2,538,940	-	6,040	-	2,544,980
Provisions	156,571	-	-	-	156,571
Current income tax liabilities	422,206	-	-	-	422,206
Deferred income tax liabilities	382,438	-	-	(13,055)	369,383
TOTAL LIABILITIES	158,985,266	-	6,040	(13,055)	158,978,251
EQUITY					
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS					
Share capital	2,000,000	-	-	-	2,000,000
Retained earnings	13,446,235	-	(11,064)	(5,090)	13,430,081
Reserves	10,022,093	-	5,977	-	10,028,070
	25,468,328	-	(5,087)	(5,090)	25,458,151
Non-controlling interests in equity	76,994	-	(5)	1	76,990
TOTAL EQUITY	25,545,322	-	(5,092)	(5,089)	25,535,141
TOTAL EQUITY AND LIABILITIES	184,530,588	-	948	(18,144)	184,513,392

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iii) Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 ECL model as at 1 January 2018:

Measurement category	Impairment allowance under HKAS 39	Remeasurement	Impairment allowance under HKFRS 9
Loans and receivables (HKAS 39) / Financial assets at amortised cost (HKFRS 9)			
- Cash and balances with banks	-	984	984
- Placements with and loans and advances to banks	-	610	610
- Loans and advances to customers	350,368	(2,927)	347,441
- Other assets	-	381	381
Subtotal	350,368	(952)	349,416
Held to maturity investments (HKAS 39) / Investment securities at amortised cost (HKFRS 9)	-	4	4
Available for sale investments (HKAS 39) / Investment securities at FVOCI (HKFRS 9)	-	5,977	5,977
Loan commitments and financial guarantee contracts	-	6,040	6,040
Total	350,368	11,069	361,437

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Accounting policies applied from 1 January 2018

This note sets out the significant accounting policies newly adopted in the preparation of the 2018 Group Interim Financial Disclosure Statement.

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL and includes the transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired (“POCI”) financial assets - assets that are credit-impaired at initial recognition - the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised as a modification gain or loss in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that have subsequently become credit-impaired (or “Stage 3”), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Accounting policies applied from 1 January 2018 (Continued)

Financial assets and liabilities (continued)

Measurement methods (continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, ECL is recognised for financial assets measured at amortised cost or measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Accounting policies applied from 1 January 2018 (Continued)

Financial assets

Classification and subsequent measurement

From 1 January 2018, the Group has applied HKFRS 9 and classifies its financial assets into the following measurement categories:
- FVTPL;
- FVOCI; or
- Amortised cost.

Debt instruments

Classification and subsequent measurement of debt instruments depend on:
(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

There are three measurement categories into which the Group classifies its debt instruments:

(a) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by ECL recognised. Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.

(b) FVOCI: Assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.

(c) FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately. Interest income from these financial assets is included in "Net trading income" using the effective interest rate method.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Accounting policies applied from 1 January 2018 (Continued)

Financial assets (Continued)

Classification and subsequent measurement (Continued)

Equity instruments

The Group subsequently measures equity instruments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity securities at FVOCI. Where the Group's management has elected to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the instruments. Dividends from such instruments continue to be recognised in profit or loss as dividend income when the Group's right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the "Net trading income" in the statement of profit or loss.

Impairment of financial assets

The Group assesses on a forward-looking basis ECL associated with its financial assets carried at amortised cost and debt instruments measured at FVOCI and with the exposure arising from loan commitments and financial guarantee contracts.

The Group recognises a loss allowance for such lossess at each reporting date. The measurement of ECL reflects:
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group adopts a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:
- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information.
- POCI financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

(a) SICR

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria
- The borrower is more than 30 days past due on its contractual payments.
- The financial instrument is downgraded in the internal rating categories and there is an increase in Probability of Default ("PD") to a significant level since initial recognition.
- Significant increase in credit risk since initial recognition with reference to external rating downgrade after initial recognition.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Accounting policies applied from 1 January 2018 (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(a) SICR (Continued)

Qualitative criteria
- The financial instrument is downgraded to "Special Mention" in the Loan Classification.

(b) Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria
The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The financial instrument is restructured due to financial stress.
- The financial instrument is partially written off.
- The borrower is bankrupt.
- The borrower is unlikely to honour its credit obligation.
- The defaulted instruments are tagged with Substandard, Doubtful or Loss in the Loan Classification.

(c) Measuring ECL - Explanation of inputs, assumptions and estimation techniques
The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of the PD, Exposure at Default ("EAD"), and Loss Given Default ("LGD"), defined as follows:
- The PD represents the likelihood of a borrower defaulting on its financial obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

(d) Forward-looking information incorporated in the ECL models
- The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL.
- These economic variables and their associated impact on the PD and LGD vary by financial instrument. Expert judgement has also been applied in this process.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Accounting policies applied from 1 January 2018 (Continued)

Financial assets (Continued)

Modification of loans

If the borrower is in financial difficulty, where the terms of the loan are modified and being substantially different to the original terms, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) does not have obligation to make payments unless it collects equivalent amounts from the assets;
(ii) is prohibited from selling or pledging the assets; and
(iii) has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Accounting policies applied from 1 January 2018 (Continued)

Financial liabilities

Classification and subsequent measurement

The Group classifies its financial liabilities at amortised cost, except for:

(a) Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; and

(b) Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

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 31 December 2017, except for the following:

Measurement of the expected credit loss ("ECL") allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Assessing data limitation and model uncertainty, and determining post model adjustments.

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.

(All amounts in HK dollar thousands unless otherwise stated)

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 30 June 2018:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	30 June 2018 Total assets	30 June 2018 Total equity	31 December 2017 Total assets	31 December 2017 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%	**14,484**	**14,155**	15,086	14,811
Shacom Futures Limited	Hong Kong	Commodities trading Hong Kong	100,000 ordinary shares	[1]100%	**35,163**	**6,796**	29,528	7,360
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	[1]100%	**2,478,452**	**10,571**	2,437,404	1,670
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US$1 each	[1]100%	**36,482**	**1,047**	37,007	769
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	[1]100%	**5,698**	**5,698**	5,677	5,677
Shacom Property (CA), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	[1]100%	**2,765**	**2,765**	2,747	2,747
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	[1]100%	**1,026,235**	**191**	1,026,082	60
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	[1]100%	**29,871**	**20,273**	29,860	19,033
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	[1]100%	**5,202**	**1,621**	5,289	1,319
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares	[1]100%	**676,025**	**162,042**	225,599	161,134
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	[1]100%	**748**	**519**	791	454
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	[2]60%	**296,020**	**181,912**	280,793	177,675
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	[1]100%	**2**	**(120)**	5	(113)
Glory Step Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	**192,476**	**(2,483)**	192,569	(2,445)
Silver Wisdom Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	**294,895**	**(2,730)**	294,936	(2,666)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	[1]100%	**305,801**	**114,820**	313,102	113,292
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	[1]100%	**307,797**	**116,730**	315,099	115,203
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	[1]100%	**309,793**	**118,851**	317,099	117,328

[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.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

6 Net interest income

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Interest income		
Cash and balances with banks	**366,530**	293,947
Investment securities at amortised cost and fair value through other comprehensive income	**652,605**	-
Held-to-maturity and available-for-sale investments	**-**	549,891
Loans and advances to customers	**1,519,079**	1,200,642
Others	**7,567**	4,117
Interest income on financial assets that are not at fair value through profit or loss	**2,545,781**	2,048,597
Included within interest income		
Interest income accrued on impaired financial assets	**3,668**	263
Interest expense		
Deposits and balances from bank	**91,133**	52,490
Deposits from customers	**657,541**	511,220
Subordinated debt	**37,442**	-
Others	**3,853**	1,564
Interest expense on financial liabilities that are not at fair value through profit or loss	**789,969**	565,274

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

7 Net fee and commission income

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Fee and commission income		
Bills	**47,319**	48,403
Nominees, custodian and securities brokerage	**138,204**	91,617
Investment products	**94,501**	74,999
Remittance	**30,818**	29,107
Facility fees	**77,586**	69,981
Credit cards	**23,062**	20,701
Retail banking	**25,523**	23,613
Insurance	**30,784**	23,475
Loans and advances	**2,759**	2,436
Trust and other commissions	**1,722**	1,781
	472,278	386,113
Fee and commission expense		
Bills	**3,952**	3,463
Nominees, custodian and securities brokerage	**8,682**	7,574
Retail banking	**14,527**	10,510
Credit cards	**29**	49
Remittance	**46**	21
	27,236	21,617
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 measured at fair value through profit or loss		
- fee and commission income	**150,726**	141,521
- fee and commission expense	**3,981**	3,512
Net fee and commission income on trust and other fiduciary activities		
- fee and commission income	**10,645**	10,892

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.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

8 Net trading income

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Foreign exchange	**85,273**	234,288
Interest rate instruments	**(16,464)**	18,620
Equities	**(179)**	21,655
Other trading (loss) / income	**(321)**	1,016
	68,309	275,579

"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.

9 Other operating income

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Gross rental income from investment properties	**38,379**	36,201
Others	**37,496**	37,652
	75,875	73,853

There were no direct operating expenses arising from investment properties for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$4,000).

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

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Insurance premium revenue	**28,409**	28,506
Insurance premium ceded to reinsurers	**(5,953)**	(7,723)
	22,456	20,783

The related net insurance claims incurred and movement in policyholders' liabilities of HK$10,348,000 (six months ended 30 June 2017: HK$10,426,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK$3,731,000 (six months ended 30 June 2017: HK$852,000).

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

11 Operating expenses

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited) Restated
Auditor's remuneration		
Audit services (Note a)	**4,484**	4,548
Non-audit and other services (Note b)	**2,626**	1,721
Advertising costs	**12,437**	14,216
Depreciation expenses	**52,003**	62,920
Employee benefit expenses		
Wages and salaries and other costs (Note c)	**423,232**	414,396
Pension costs - defined contribution schemes	**32,464**	28,776
Premises and equipment expenses, excluding depreciation		
Rental of premises	**61,026**	58,263
Building expenses	**15,502**	16,583
Other operating expenses		
Computer rental and licence	**13,381**	10,758
Credit card business promotion	**15,219**	13,851
Credit card service fee	**6,484**	5,802
Insurance	**3,437**	2,529
Legal and consultancy	**29,579**	17,268
Postage	**7,944**	7,404
Printing and stationery	**5,264**	4,920
Repair and maintenance	**12,848**	10,637
Telephone and communications	**15,638**	15,793
Travelling and transportation	**3,906**	3,099
Water, heat and light	**8,428**	8,410
Others	**50,495**	42,486
	776,397	744,380

Note a: Auditor's remuneration for audit services represents the fee paid for the full scope audit of the Group's financial information for the interim and annual periods to comply with the statutory requirements in Hong Kong and Taiwan.

Note b: Included in non-audit and other services is the fee paid for the review under Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" for the first and third quarter results of the Group in accordance with the regulatory requirements of the ultimate holding company in Taiwan.

Note c: Employee benefit expenses include directors' emoluments. The number of employees of the Group as at 30 June 2018 was 1,769 (30 June 2017: 1,735).

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

12 Net impairment losses on financial assets

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Loans and advances to customers	**17,154**	46,412
Balances with banks and placements with and loans and advances to banks	**(376)**	-
Investment securities	**163**	-
Other assets	**391**	-
Loan commitments and financial guarantee contracts	**(86)**	-
	17,246	46,412

13 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits for the six months ended 30 June 2018. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2018 at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the statement of profit or loss represents:

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Current income tax:		
- Hong Kong profits tax	**207,041**	203,501
- Overseas taxation	**115,336**	111,847
- Over provisions in respect of prior years	**(4,244)**	(3,081)
Total current income tax	**318,133**	312,267
Deferred income tax:		
- Hong Kong deferred tax	**(2,684)**	(9,606)
- Overseas deferred tax	**4,571**	4,614
Total deferred income tax	**1,887**	(4,992)
Income tax expense	**320,020**	307,275

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

14 Cash and balances with banks

	30 June 2018 (unaudited)	31 December 2017 (audited) Restated
Cash in hand	**339,242**	355,681
Balances with central banks and Hong Kong Monetary Authority	**7,923,897**	8,877,217
Balances with banks	**14,993,366**	19,423,714
	23,256,505	28,656,612
Less: impairment allowances	**(737)**	-
	23,255,768	28,656,612

Included in the above amounts, HK$224,535,000 (31 December 2017: HK$313,863,000) were deposited in central banks or designated banks to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business.

15 Placements with and loans and advances to banks

	30 June 2018 (unaudited)	31 December 2017 (audited) Restated
Placements with banks maturing between 1 and 12 months	**14,933,504**	17,549,603
Less: impairment allowances	**(481)**	-
	14,933,023	17,549,603

Included in the above amounts, HK$380,095,000 (31 December 2017: HK$383,300,000) were deposited with designated banks in the People's Republic of China as at 30 June 2018, to comply with the local statutory requirements.

16 Loans and advances to customers

	30 June 2018 (unaudited)	31 December 2017 (audited) Restated
Loans and advances to individuals	**16,336,868**	16,054,094
Loans and advances to corporate entities	**67,687,953**	62,410,474
Gross loans and advances to customers	**84,024,821**	78,464,568
Less: impairment allowances		
- Stage 3 (2017: individually assessed)	**(32,498)**	(37,297)
- Stage 1 and Stage 2 (2017: collectively assessed)	**(330,745)**	(313,071)
	83,661,578	78,114,200
Gross trade bills and other eligible bills, included within loans and advances to customers	**694,780**	579,334
Less: impairment allowances on trade bills		
- Stage 1 and Stage 2 (2017: collectively assessed)	**(512)**	(759)
	694,268	578,575

The Group accepted listed securities at fair value of HK$3,206,556,000 as at 30 June 2018 (31 December 2017: HK$3,575,134,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Derivative financial instruments

		Fair values	
As at 30 June 2018 (unaudited)	**Contract amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Exchange rate contracts			
Forwards and swaps	**28,734,104**	**242,846**	**(248,183)**
Options purchased	**17,216,059**	**14,674**	**-**
Options written	**17,399,382**	**-**	**(14,674)**
Total recognised derivative assets/(liabilities)		**257,520**	**(262,857)**

		Fair values	
As at 31 December 2017 (audited)	Contract amount	Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts			
Forwards and swaps	9,493,127	135,461	(140,651)
Options purchased	4,473,328	5,545	-
Options written	4,510,657	-	(5,545)
Total recognised derivative assets/(liabilities)		141,006	(146,196)

	Credit risk weighted amount	
	30 June 2018 (unaudited)	31 December 2017 (audited)
Exchange rate contracts	**946,316**	388,686

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 30 June 2018 and 31 December 2017 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.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

18 Properties for sale

	30 June 2018 (unaudited)	31 December 2017 (audited)
Property development		
Leasehold land held for development for sale	**358,788**	358,788
Building development cost	**22,128**	14,741
	380,916	373,529

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2018, the net book amount of land and building incurred for this project were HK$507,683,000 (31 December 2017: HK$497,902,000), of which HK$380,916,000 (31 December 2017: HK$373,529,000) were classified as properties for sale while the remaining HK$126,767,000 as bank premises under development (Note 20) in accordance with the redevelopment plan.

19 Investments in joint ventures

On 20 March 2017, the Bank along with other four shareholders of Hong Kong Life Insurance Limited ("Hong Kong Life") entered into an agreement with First Origin International Limited to sell their entire interest in Hong Kong Life at a consideration of HK$7.1 billion. The completion of the transaction is subject to approvals by the relevant regulators.

In accordance with the share sale agreement regarding Hong Kong Life, the sellers and the purchaser have agreed to extend the satisfaction of certain conditions by 20 March 2018 to 30 September 2018. Save as disclosed here, all other terms and conditions of the agreement remain unchanged.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

20 Properties and equipment

				Property under development		
	Leasehold land	Bank premises	Furniture, fittings and equipment	Leasehold land	Development cost	Total
As at 1 January 2017						
Cost	1,512,311	1,094,481	707,532	-	-	3,314,324
Accumulated depreciation	(126,561)	(287,797)	(563,378)	-	-	(977,736)
Net book amount	1,385,750	806,684	144,154	-	-	2,336,588
Year ended 31 December 2017						
Opening net book amount	1,385,750	806,684	144,154	-	-	2,336,588
Additions	-	935	158,526	-	4,914	164,375
Transfers						
Cost	(120,244)	-	-	120,244	-	-
Accumulated depreciation	648	-	-	(648)	-	-
Transfers to investment properties (Note 21)						
Cost	(415)	(182)	-	-	-	(597)
Accumulated depreciation	5	6	-	-	-	11
Disposals / write-off						
Cost	-	-	(41,376)	-	-	(41,376)
Accumulated depreciation	-	-	36,635	-	-	36,635
Depreciation charge	(17,432)	(36,550)	(54,667)	(137)	-	(108,786)
Exchange adjustments	-	2,505	214	-	-	2,719
Closing net book amount	1,248,312	773,398	243,486	119,459	4,914	2,389,569
As at 31 December 2017 (audited)						
Cost	1,391,652	1,098,904	827,425	120,244	4,914	3,443,139
Accumulated depreciation	(143,340)	(325,506)	(583,939)	(785)	-	(1,053,570)
Net book amount	1,248,312	773,398	243,486	119,459	4,914	2,389,569
Six months ended 30 June 2018						
Opening net book amount	**1,248,312**	**773,398**	**243,486**	**119,459**	**4,914**	**2,389,569**
Additions	**-**	**520**	**23,422**	**-**	**2,462**	**26,404**
Disposals / write-off						
Cost	**-**	**-**	**(34,194)**	**-**	**-**	**(34,194)**
Accumulated depreciation	**-**	**-**	**31,349**	**-**	**-**	**31,349**
Depreciation charge	**(8,716)**	**(12,477)**	**(26,295)**	**(68)**	**-**	**(47,556)**
Exchange adjustments	**-**	**(290)**	**(25)**	**-**	**-**	**(315)**
Closing net book amount	**1,239,596**	**761,151**	**237,743**	**119,391**	**7,376**	**2,365,257**
As at 30 June 2018 (unaudited)						
Cost	**1,391,652**	**1,099,034**	**816,105**	**120,244**	**7,376**	**3,434,411**
Accumulated depreciation	**(152,056)**	**(337,883)**	**(578,362)**	**(853)**	**-**	**(1,069,154)**
Net book amount	**1,239,596**	**761,151**	**237,743**	**119,391**	**7,376**	**2,365,257**

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2018, the net book amount of land and building incurred for this project were HK$507,683,000 (31 December 2017: HK$497,902,000), of which HK$380,916,000 (31 December 2017: HK$373,529,000) were classified as properties for sale (Note 18) while the remaining HK$126,767,000 as bank premises under development in accordance with the redevelopment plan.

As at 30 June 2018, interests in freehold land outside Hong Kong amounted to HK$34,373,000 (31 December 2017: HK$34,652,000) were included as bank premises above.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

21 Investment properties

	Leasehold land	Buildings	Total
As at 1 January 2017			
Cost	724,890	316,712	1,041,602
Accumulated depreciation	(7,804)	(6,018)	(13,822)
Net book amount	717,086	310,694	1,027,780
Year ended 31 December 2017			
Opening net book amount	717,086	310,694	1,027,780
Additions	-	1,028	1,028
Transfers from properties and equipment (Note 20)			
Cost	415	182	597
Accumulated depreciation	(5)	(6)	(11)
Depreciation charge	(865)	(8,025)	(8,890)
Closing net book amount	716,631	303,873	1,020,504
As at 31 December 2017 (audited)			
Cost	725,305	317,922	1,043,227
Accumulated depreciation	(8,674)	(14,049)	(22,723)
Net book amount	716,631	303,873	1,020,504
Six months ended 30 June 2018			
Opening net book amount	**716,631**	**303,873**	**1,020,504**
Additions	**-**	**572**	**572**
Depreciation charge	**(432)**	**(4,015)**	**(4,447)**
Closing net book amount	**716,199**	**300,430**	**1,016,629**
As at 30 June 2018 (unaudited)			
Cost	**725,305**	**318,494**	**1,043,799**
Accumulated depreciation	**(9,106)**	**(18,064)**	**(27,170)**
Net book amount	**716,199**	**300,430**	**1,016,629**

As at 30 June 2018, the Group's investment properties were valued at HK$3,352,000,000 (31 December 2017: HK$3,342,000,000) by an independent firm of Jones Lang LaSalle Limited (31 December 2017: Cushman & Wakefield Limited), who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The valuations were performed on an open market value basis.

22 Deposits from customers

	30 June 2018 (unaudited)	31 December 2017 (audited) Restated
Demand deposits and current accounts	**18,626,961**	18,004,085
Savings deposits	**44,543,537**	47,561,280
Time, call and notice deposits	**84,424,662**	80,688,439
Deposits from Hong Kong Government Exchange Fund	**392,363**	390,890
	147,987,523	146,644,694

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

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

(iii) Investment securities at amortised cost (2017: Held-to-maturity securities)

The fair value for investment securities at amortised cost 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 investment securities at amortised cost was HK$2,422,645,000 (31 December 2017: HK$2,383,170,000). The fair value of investment securities at amortised cost is classified under Level 1 as at 30 June 2018 and 31 December 2017 in the fair value hierarchy. Please refer to Note 23(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 will mature within 1 year from the reporting date. Hence, the carrying amount at the reporting date approximates their fair value.

(v) Subordinated debt

The fair value of subordinated debt of HK$1,889,402,000 (31 December 2017: 1,941,883,000) is classified under Level 2 in the fair value hierarchy.

(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 instruments such as over-the-counter derivative contracts, unlisted equity securities and unlisted debt securities. Observable parameters that are used as input include market data such as HIBOR and LIBOR yield curves and exchange rate implied volatilities.

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

As at 30 June 2018 (unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Debt securities	**501,909**	**1,306,199**	**-**	**1,808,108**
Equity securities	**19,829**	**-**	**5,109**	**24,938**
Funds	**-**	**-**	**-**	**-**
Others	**1,237**	**-**	**-**	**1,237**
Derivative financial instruments				
Exchange rate contracts	**-**	**257,520**	**-**	**257,520**
Investment securities at fair value through other comprehensive income				
Debt securities	**20,961,430**	**29,360,712**	**2,874**	**50,325,016**
Equity securities	**4,219,283**	**105,984**	**50,565**	**4,375,832**
Total Assets	**25,703,688**	**31,030,415**	**58,548**	**56,792,651**
Derivative financial instruments				
Exchange rate contracts	**-**	**262,857**	**-**	**262,857**
Total Liabilities	**-**	**262,857**	**-**	**262,857**

As at 31 December 2017 (audited) Restated	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	1,149,195	782,379	-	1,931,574
Equity securities	35,161	-	-	35,161
Funds	3,005	-	-	3,005
Others	144	-	-	144
Derivative financial instruments				
Exchange rate contracts	-	141,006	-	141,006
Available-for-sale investments				
Debt securities	14,987,532	30,684,903	2,874	45,675,309
Equity securities	3,981,743	100,657	33,915	4,116,315
Total Assets	20,156,780	31,708,945	36,789	51,902,514
Derivative financial instruments				
Exchange rate contracts	-	146,196	-	146,196
Total Liabilities	-	146,196	-	146,196

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Level 2 fair values of unlisted debt securities are determined based on quotes from brokers. The most significant input is discount rate 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 and options are determined using forward exchange rates and implied volatilities at the reporting date, with the resulting value discounted back to present value.

Level 3 fair values of unlisted equity securities and debentures are determined based on valuation techniques using significant unobservable inputs, which includes the market comparison approach and the dividend discount approach. The fair value is positively correlated to the price to book ratio of appropriate comparables or dividend growth rate.

If the significant unobservable inputs would be shifted by +/- 5%, the impact on other comprehensive income would be increased by HK$4,181,000 or decreased by HK$3,603,000 and profit or loss would be increased/ decreased by HK$255,000 respectively.

The following table presents the changes in level 3 instruments for the periods ended 30 June 2018 and 31 December 2017 respectively.

	Financial assets held for trading		Available-for-sale investments		
	Equity	Total	Equity	Debt securities	Total
As at 1 January 2017	-	-	33,690	2,874	36,564
Total gains					
- Profit	-	-	-	-	-
- Other comprehensive income	-	-	-	-	-
Purchases	-	-	-	-	-
Exchange adjustments	-	-	225	-	225
As at 31 December 2017 (audited)	-	-	33,915	2,874	36,789

	Financial assets at fair value through profit or loss		**Investment securities at fair value through other comprehensive income**		
	Equity	**Total**	**Equity**	**Debt securities**	**Total**
As at 1 January 2018 (Restated)	**4,369**	**4,369**	**29,546**	**2,874**	**32,420**
Total gains					
- Profit	**740**	**740**	**-**	**-**	**-**
- Other comprehensive income	**-**	**-**	**9,812**	**-**	**9,812**
Purchases	**-**	**-**	**11,100**	**-**	**11,100**
Exchange adjustments	**-**	**-**	**107**	**-**	**107**
As at 30 June 2018 (unaudited)	**5,109**	**5,109**	**50,565**	**2,874**	**53,439**

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

24 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 investment securities at FVOCI (2017: available-for-sale investments)	Others	Total
As at 1 January 2017	44,377	(6,711)	39	18,155	55,860
(Charged) / credited to the statement of profit or loss	(10,958)	(9,142)	-	3,841	(16,259)
Exchange adjustments	1,462	(653)	-	123	932
Charged to equity	-	-	(25)	-	(25)
Reclassified from / (to) deferred income tax liabilities	-	(2)	17	-	15
Balance as at 31 December 2017 as originally presented (audited)	**34,881**	**(16,508)**	**31**	**22,119**	**40,523**
Change in accounting policy	**(18,144)**	**-**	**-**	**-**	**(18,144)**
Restated as at 1 January 2018	**16,737**	**(16,508)**	**31**	**22,119**	**22,379**
(Charged) / credited to the statement of profit or loss	**(6,555)**	**6,786**	**-**	**(4,746)**	**(4,515)**
Exchange adjustments	**269**	**(165)**	**-**	**34**	**138**
Reclassified from / (to) deferred income tax liabilities	**51,054**	**(25,696)**	**43,302**	**-**	**68,660**
As at 30 June 2018 (unaudited)	**61,505**	**(35,583)**	**43,333**	**17,407**	**86,662**

Deferred income tax liabilities	Impairment allowances	Accelerated tax depreciation	Fair value gains on investment securities at FVOCI (2017: available-for-sale investments)	Others	Total
As at 1 January 2017	29,961	(20,353)	(485,293)	(1,193)	(476,878)
Credited / (charged) to the statement of profit or loss	4,964	(4,925)	-	1,193	1,232
Credited to equity	-	-	93,223	-	93,223
Reclassified (to) / from deferred income tax assets	-	2	(17)	-	(15)
Balance as at 31 December 2017 as originally presented (audited)	**34,925**	**(25,276)**	**(392,087)**	**-**	**(382,438)**
Change in accounting policy	**13,055**	**-**	**-**	**-**	**13,055**
Restated as at 1 January 2018	**47,980**	**(25,276)**	**(392,087)**	**-**	**(369,383)**
Credited / (charged) to the statement of profit or loss	**3,074**	**(446)**	**-**	**-**	**2,628**
Credited to equity	**-**	**-**	**435,389**	**-**	**435,389**
Reclassified (to) / from deferred income tax assets	**(51,054)**	**25,696**	**(43,302)**	**-**	**(68,660)**
As at 30 June 2018 (unaudited)	**-**	**(26)**	**-**	**-**	**(26)**

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

25 Reserves attributable to equity holders

	Regulatory reserve (Note)	Investment securities at FVOCI (2017: Available-for-sale investments) revaluation reserve	General and other reserves	Total
As at 1 January 2017	704,102	2,470,173	7,183,389	10,357,664
Change in fair value of available-for-sale investments	-	(590,532)	-	(590,532)
Fair value changes transferred to profit or loss on disposal of available-for-sale investments	-	(45,489)	-	(45,489)
Effect of deferred taxation	-	93,208	-	93,208
Currency translation difference arising from overseas operations	3,218	-	95,126	98,344
Currency exchange difference arising from reserves	-	71,124	-	71,124
Share of reserves of joint ventures	-	4,359	12	4,371
Transfer from retained earnings	33,403	-	-	33,403
As at 31 December 2017 (audited)	740,723	2,002,843	7,278,527	10,022,093
As at 31 December 2017 as originally presented	740,723	2,002,843	7,278,527	10,022,093
Change in accounting policy	-	5,977	-	5,977
Restated as at 1 January 2018	**740,723**	**2,008,820**	**7,278,527**	**10,028,070**
Change in fair value of investment securities at FVOCI	**-**	**95,781**	**-**	**95,781**
Fair value changes transferred to profit or loss on disposal of investment securities at FVOCI	**-**	**(18,864)**	**-**	**(18,864)**
Effect of deferred taxation	**-**	**435,363**	**-**	**435,363**
Currency translation difference arising from overseas operations	**(1,151)**	**-**	**(23,884)**	**(25,035)**
Currency exchange difference arising from reserves	**-**	**(34,101)**	**-**	**(34,101)**
Share of reserves of joint ventures	**-**	**(9,799)**	**232**	**(9,567)**
As at 30 June 2018 (unaudited)	**739,572**	**2,477,200**	**7,254,875**	**10,471,647**

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").

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

26 Cash and cash equivalents and other cash flow information

(a) Reconciliation of liabilities arising from financing activities

	30 June 2018 Subordinated debt (unaudited)	30 June 2017 Subordinated debt (unaudited)
Balance as at 1 January	**1,940,308**	-
Non-cash changes:		
- Foreign exchange movement	**7,383**	-
- Amortisation of discount and issuance cost	**515**	-
Balance as at 30 June	**1,948,206**	-

(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 3 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.

	30 June 2018 (unaudited)	30 June 2017 (unaudited) Restated
Cash and balances with banks	**22,351,158**	25,331,381
Placements with and loans and advances to banks	**2,619,229**	4,157,597
Exchange Fund Bills	**1,999,740**	-
	26,970,127	29,488,978

27 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:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Direct credit substitutes	**2,274,822**	2,699,479
Trade-related contingencies	**2,490,353**	2,402,762
Other commitments with an original maturity of:		
- under 1 year	**1,566,712**	1,149,009
- 1 year and over	**8,286,360**	7,087,758
- unconditionally cancellable	**34,830,113**	33,425,203
	49,448,360	46,764,211

The credit risk weighted amount of credit commitment is HK$6,445,252,000 (31 December 2017: HK$6,314,885,000).

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.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

27 Contingent liabilities and commitments (Continued)

(b) Capital commitments

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

	30 June 2018 (unaudited)	31 December 2017 (audited)
Properties and equipment		
Contracted but not provided for	**186,283**	152,553

(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:

	30 June 2018 (unaudited)	31 December 2017 (audited)
No later than 1 year	**109,058**	88,453
Later than 1 year and no later than 5 years	**136,746**	109,569
Later than 5 years	**10,170**	11,586
	255,974	209,608

(ii) As lessor

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

	30 June 2018 (unaudited)	31 December 2017 (audited)
No later than 1 year	**78,895**	83,360
Later than 1 year and no later than 5 years	**74,643**	109,918
	153,538	193,278

The Group leases its investment properties (Note 21) 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.

(d) Other contingent liabilities

The Group is involved in legal actions which are in relation to its normal business operations. No material provision was made for those actions against the Group because the management believes that the Group has adequate grounds to defend against the claimants or the amounts involved in those actions are not expected to be material.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 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 30 June 2018 (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	10,053,946	13,201,822	-	-	-	-	-	23,255,768
Placements with and loans and advances to banks	-	-	5,281,128	9,651,895	-	-	-	14,933,023
Loans and advances to customers	5,141,649	5,939,766	6,519,270	17,231,734	28,991,579	19,213,518	624,062	83,661,578
Financial assets at fair value through profit or loss	-	619,586	5,926	25,082	170,727	986,787	26,175	1,834,283
Derivative financial instruments	-	46,494	44,230	152,780	14,016	-	-	257,520
Investment securities at fair value through other comprehensive income	-	3,796,911	2,706,387	7,740,042	35,802,670	276,132	4,378,706	54,700,848
Investment securities at amortised cost	-	7,845	1,462,589	916,036	39,220	-	-	2,425,690
Properties for sale	-	-	-	-	-	-	380,916	380,916
Investments in joint ventures	-	-	-	-	-	-	351,543	351,543
Properties and equipment	-	-	-	-	-	-	2,365,257	2,365,257
Investment properties	-	-	-	-	-	-	1,016,629	1,016,629
Deferred income tax assets	-	-	-	-	-	-	86,662	86,662
Other assets	284,962	1,219,651	70,833	223,591	447,161	50,633	4,237	2,301,068
Total assets	15,480,557	24,832,075	16,090,363	35,941,160	65,465,373	20,527,070	9,234,187	187,570,785
Liabilities								
Deposits and balances from banks	1,028,142	3,632,277	2,515,573	393,423	-	-	-	7,569,415
Deposits from customers	63,948,162	33,846,813	27,393,667	22,618,678	180,203	-	-	147,987,523
Derivative financial instruments	-	43,566	47,924	157,323	14,044	-	-	262,857
Subordinated debt	-	-	-	-	-	1,948,206	-	1,948,206
Other liabilities	522,986	1,768,110	180,914	405,924	1,348	-	-	2,879,282
Provisions	14,345	-	-	95,620	-	-	-	109,965
Current income tax liabilities	-	-	-	341,917	-	-	-	341,917
Deferred income tax liabilities	-	-	-	-	-	-	26	26
Total liabilities	65,513,635	39,290,766	30,138,078	24,012,885	195,595	1,948,206	26	161,099,191
Net liquidity gap	(50,033,078)	(14,458,691)	(14,047,715)	11,928,275	65,269,778	18,578,864	9,234,161	26,471,594
Of which certificates of deposit included in:								
Investment securities at fair value through other comprehensive income	-	362,280	1,256,028	4,529,447	9,466,446	-	-	15,614,201

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Maturity analysis (Continued)

As at 31 December 2017 (audited) Restated	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	11,169,436	17,487,176	-	-	-	-	-	28,656,612
Placements with and loans and advances to banks	-	-	8,231,499	9,318,104	-	-	-	17,549,603
Loans and advances to customers	4,924,730	5,181,632	7,443,835	16,144,600	25,105,658	18,672,501	641,244	78,114,200
Financial assets held for trading	-	44,022	-	81,612	453,539	1,352,401	38,310	1,969,884
Derivative financial instruments	-	45,176	61,858	28,925	5,047	-	-	141,006
Available-for-sale investments	-	1,590,335	2,688,107	10,214,793	30,992,987	186,213	4,119,189	49,791,624
Held-to-maturity investments	-	-	307,182	1,999,487	77,944	-	-	2,384,613
Properties for sale	-	-	-	-	-	-	373,529	373,529
Investments in joint ventures	-	-	-	-	-	-	338,914	338,914
Properties and equipment	-	-	-	-	-	-	2,389,569	2,389,569
Investment properties	-	-	-	-	-	-	1,020,504	1,020,504
Deferred income tax assets	-	-	-	-	-	-	40,523	40,523
Other assets	93,126	926,704	95,757	219,297	371,851	49,092	4,180	1,760,007
Total assets	16,187,292	25,275,045	18,828,238	38,006,818	57,007,026	20,260,207	8,965,962	184,530,588
Liabilities								
Deposits and balances from banks	1,393,884	1,814,142	2,682,384	863,503	-	-	-	6,753,913
Deposits from customers	66,705,536	32,488,622	26,942,317	20,241,513	266,706	-	-	146,644,694
Derivative financial instruments	-	32,939	80,978	27,232	5,047	-	-	146,196
Subordinated debt	-	-	-	-	-	1,940,308	-	1,940,308
Other liabilities	668,728	1,309,535	179,440	380,227	1,010	-	-	2,538,940
Provisions	36,144	-	120,427	-	-	-	-	156,571
Current income tax liabilities	-	284,829	-	137,377	-	-	-	422,206
Deferred income tax liabilities	-	-	-	-	-	-	382,438	382,438
Total liabilities	68,804,292	35,930,067	30,005,546	21,649,852	272,763	1,940,308	382,438	158,985,266
Net liquidity gap	(52,617,000)	(10,655,022)	(11,177,308)	16,356,966	56,734,263	18,319,899	8,583,524	25,545,322
Of which certificates of deposit included in: Available-for-sale investments	-	688,094	1,510,832	5,064,205	10,008,587	-	-	17,271,718

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 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 at the reporting date, and related expense and income for the period were as follows:

As at 30 June 2018 (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	**-**	**-**	**158,542**	**-**	**158,542**
- Cash and balances with banks	**267**	**-**	**-**	**101,060**	**101,327**
- Deposits and balances from banks and customers	**430,432**	**333,674**	**1,764,806**	**2,631,564**	**5,160,476**
- Financial assets at fair value through other comprehensive income	**105,984**	**-**	**-**	**5,837**	**111,821**
- Stage 1 and Stage 2 impairment allowances	**-**	**-**	**300**	**2**	**302**
- Contingent liabilities and other commitments	**-**	**2,000**	**908,117**	**-**	**910,117**
Six months ended 30 June 2018 (unaudited)					
Interest income received from related parties	**4**	**-**	**2,278**	**44**	**2,326**
Interest expenses paid to related parties	**1,501**	**1,119**	**1,360**	**27,829**	**31,809**

As at 31 December 2017 (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	-	-	143,480	-	143,480
- Cash and balances with banks	9	-	-	13,948	13,957
- Deposits and balances from banks and customers	469,145	384,412	1,473,970	2,697,532	5,025,059
- Available-for-sale investments	100,657	-	-	514,522	615,179
- Collectively assessed impairment allowances	-	-	592	-	592
- Contingent liabilities and other commitments	7,831	62,000	614,860	-	684,691
Six months ended 30 June 2017 (unaudited)					
Interest income received from related parties	1,624	-	2,091	57	3,772
Interest expenses paid to related parties	1,193	1,556	1,267	11,470	15,486

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 perosnnel or Directors.

Key management personnel compensation

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

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Salaries and other short-term employee benefits	**39,401**	26,758

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

30 Segment reporting

(a) By operating segment

Operating segments, and the amounts of each segment item reported in the Group Interim Financial Disclosure Statement, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

For the purpose of assessing performance of business activity by class, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

The Group is engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, trade finance, treasury and other classes of business.

Retail and corporate banking - incorporating banking services to individual and corporate customers such as current accounts, savings accounts, time deposits, safe deposit box, credit and debit cards, loans and other credit facilities.

Trade finance - incorporating import and export bills services (including RMB business), invoice financing and invoice discounting.

Treasury - conducting treasury operations for trading and investment purposes such as foreign exchange, money market and capital market activities and providing treasury products such as yield enhancement and hedging products to retail and corporate customers.

The "Others" business mainly comprises remittance, share dealing, provision of trustee, wealth management and insurance services.

	Six months ended 30 June 2018 (unaudited)				
	Retail and corporate banking	**Trade finance**	**Treasury**	**Others**	**Total**
Net interest income	**1,234,406**	**60,378**	**434,064**	**26,964**	**1,755,812**
Net fee and commission income	**108,623**	**45,643**	**-**	**290,776**	**445,042**
Other operating income	**27,970**	**7,142**	**87,173**	**190,139**	**312,424**
Operating income	**1,370,999**	**113,163**	**521,237**	**507,879**	**2,513,278**
Operating expenses	**(420,113)**	**(42,967)**	**(65,008)**	**(248,309)**	**(776,397)**
Net impairment losses on financial assets	**(15,475)**	**(1,419)**	**13**	**(365)**	**(17,246)**
Share of net profits of joint ventures	**-**	**-**	**-**	**28,566**	**28,566**
Profit before income tax (after taking into account internal fund transfers and cost allocation)	**935,411**	**68,777**	**456,242**	**287,771**	**1,748,201**
Income tax expense	**(212,039)**	**(9,741)**	**(73,793)**	**(24,447)**	**(320,020)**
Depreciation expenses	**(2,531)**	**(246)**	**(731)**	**(48,495)**	**(52,003)**
As at 30 June 2018 (unaudited):					
Operating assets	**83,599,865**	**4,013,654**	**94,117,611**	**5,839,655**	**187,570,785**
Operating liabilities	**148,972,388**	**92,876**	**10,639,766**	**1,394,161**	**161,099,191**

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

30 Segment reporting (Continued)

(a) By operating segment (Continued)

	Six months ended 30 June 2017 (unaudited)				
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	1,001,432	52,945	394,279	34,667	1,483,323
Net fee and commission income	97,852	43,621	7,558	215,465	364,496
Other operating income	28,646	7,783	299,839	151,724	487,992
Operating income	1,127,930	104,349	701,676	401,856	2,335,811
Operating expenses	(381,725)	(41,834)	(43,704)	(277,117)	(744,380)
Charge of impairment losses on loans and advances	(45,418)	(994)	-	-	(46,412)
Share of net profits of joint ventures	-	-	-	31,042	31,042
Profit before income tax (after taking into account internal fund transfers and cost allocation)	700,787	61,521	657,972	155,781	1,576,061
Income tax expense	(190,077)	(7,563)	(109,932)	297	(307,275)
Depreciation expenses	(2,326)	(155)	(721)	(59,718)	(62,920)
As at 31 December 2017 (audited):					
Operating assets	78,288,048	3,658,373	97,342,383	5,241,784	184,530,588
Operating liabilities	148,268,466	142,730	7,898,354	2,675,716	158,985,266

(b) By geographical regions

The following tables provide segment information by geographical area determined with reference to the location of the principal operations of the branches and subsidiaries of the Group.

	As at 30 June 2018 (unaudited)			**Six months ended 30 June 2018 (unaudited)**		
	Total assets	**Total liabilities**	**Contingent liabilities and commitments**	**Total operating income**	**Profit before income tax**	**Capital expenditure**
Hong Kong and Mainland China	**162,709,841**	**147,246,018**	**41,993,515**	**2,079,755**	**1,387,141**	**26,790**
United States	**22,129,912**	**11,541,073**	**7,426,085**	**402,476**	**340,639**	**138**
United Kingdom	**2,731,032**	**2,312,100**	**28,760**	**31,047**	**20,421**	**48**
Total	**187,570,785**	**161,099,191**	**49,448,360**	**2,513,278**	**1,748,201**	**26,976**

	As at 31 December 2017 (audited)			Six months ended 30 June 2017 (unaudited)		
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	161,403,946	145,784,771	40,481,826	1,994,203	1,305,521	129,205
United States	20,626,549	10,947,437	6,224,867	314,688	250,987	497
United Kingdom	2,500,093	2,253,058	57,518	26,920	19,553	40
Total	184,530,588	158,985,266	46,764,211	2,335,811	1,576,061	129,742

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

31 Comparative figures

In relation to the adoption of HKFRS 9, as permitted by the relevant transitional provisions, the Group elected not to restate comparative figures.

To conform with the current period's presentation, comparative figures for financial assets, financial liabilities, other assets and other liabilities have been restated as interest receivables of HK$747,391,000 and interest payables of HK$342,117,000 of comparative period have been reclassified to "other assets" and "other liabilities". In addition, effect of exchange rate changes from investing and financing activities has been separately disclosed in the condensed consolidated statement of cash flows.

(All amounts in HK dollar thousands unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION

The following information is unaudited and is disclosed as part of the accompanying information to the condensed consolidated financial statements.

1 International claims

The following table shows the Group's international claims by major country or geographical segment, each representing 10% or more 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.

			Non-bank private sector		
As at 30 June 2018	**Banks**	**Official sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
Developed countries	**15,060,000**	**749,000**	**1,980,000**	**851,000**	**18,640,000**
Offshore centres	**3,119,000**	**-**	**2,834,000**	**15,557,000**	**21,510,000**
- of which Hong Kong	**1,793,000**	**-**	**1,581,000**	**12,130,000**	**15,504,000**
Developing Asia-Pacific	**51,082,000**	**55,000**	**184,000**	**6,036,000**	**57,357,000**
- of which China	**41,984,000**	**55,000**	**184,000**	**4,912,000**	**47,135,000**

			Non-bank private sector		
As at 31 December 2017	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	21,072,000	868,000	3,439,000	1,029,000	26,408,000
Offshore centres	2,083,000	-	1,251,000	14,327,000	17,661,000
- of which Hong Kong	1,353,000	-	821,000	10,912,000	13,086,000
Developing Asia-Pacific	51,153,000	64,000	185,000	4,863,000	56,265,000
- of which China	44,980,000	64,000	185,000	3,781,000	49,010,000

(All amounts in HK dollar thousands unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION

2 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.

	30 June 2018		31 December 2017 Restated	
	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	**5,814,130**	**59%**	6,665,802	62%
- Property investment	**7,544,917**	**93%**	7,306,264	97%
- Financial concerns	**1,026,531**	**92%**	1,121,097	93%
- Stockbrokers	**1,109,783**	**94%**	1,140,495	80%
- Wholesale and retail trade	**3,666,149**	**26%**	3,725,208	24%
- Manufacturing	**1,719,584**	**67%**	1,759,252	66%
- Transport and transport equipment	**267,934**	**93%**	442,132	91%
- Recreational activities	**201,358**	**79%**	162,386	90%
- Information technology - telecommunication	**8,171**	**69%**	4,952	49%
- Hotels, boarding houses and catering	**2,237,817**	**86%**	1,323,295	89%
- Others	**6,953,648**	**75%**	5,035,585	78%
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	**96,983**	**100%**	101,810	100%
- Loans for the purchase of other residential properties	**4,097,434**	**100%**	4,257,780	100%
- Credit card advances	**194,203**	**0%**	217,036	0%
- Others	**7,063,470**	**95%**	6,661,998	94%
Trade finance	**6,907,652**	**72%**	6,455,931	70%
Loans for use outside Hong Kong	**34,420,277**	**87%**	31,504,211	89%
	83,330,041	**82%**	77,885,234	82%

As at 30 June 2018, the Bank did not have exposures to individual industry sector constituting 10% or more of the Group's total amount of loans and advances (31 December 2017: nil).

(All amounts in HK dollar thousands unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION

2 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 30 June 2018	**Gross loans and advances to customers**	**Stage 3 loans and advances**	**Loans and advances overdue for over 3 months**	**Total Stage 3 impairment allowances**	**Total Stage 1 and Stage 2 impairment allowances**
Hong Kong	**52,694,633**	**504,040**	**412,241**	**21,647**	**275,915**
Mainland China	**7,995,067**	**22,698**	**22,684**	**10,851**	**14,324**
United States	**18,911,651**	**-**	**-**	**-**	**29,918**
Others	**4,423,470**	**20,193**	**19,076**	**-**	**10,588**
	84,024,821	**546,931**	**454,001**	**32,498**	**330,745**
% of total loans and advances to customers		**0.65%**			
Fair value of collateral		**1,434,384**			

As at 31 December 2017	Gross loans and advances to customers (Restated)	Individually assessed impaired loans and advances (Restated)	Loans and advances overdue for over 3 months (Restated)	Total individual impairment allowances	Total collective impairment allowances
Hong Kong	49,862,842	539,849	429,843	23,358	199,999
Mainland China	6,523,541	30,183	27,698	13,859	25,077
United States	17,788,309	-	-	-	71,310
Others	4,289,876	21,105	19,875	80	16,685
	78,464,568	591,137	477,416	37,297	313,071
% of total loans and advances to customers		0.75%			
Fair value of collateral		1,382,505			

(All amounts in HK dollar thousands unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION

2 Loans and advances (Continued)

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

	30 June 2018		31 December 2017 Restated	
Gross loans and advances which have been overdue for:		**% of gross loans and advances to customers**		% of gross loans and advances to customers
- 6 months or less but over 3 months	**7,319**	**0.01**	399,181	0.51
- 1 year or less but over 6 months	**411,764**	**0.49**	47,542	0.06
- over 1 year	**34,918**	**0.04**	30,693	0.04
	454,001	**0.54**	477,416	0.61
Current market value of collateral	**1,173,261**		1,177,535	
Covered portion by collateral	**441,540**		465,751	
Uncovered portion by collateral	**12,461**		11,665	
Stage 3 (2017: individually assessed) impairment allowances	**19,481**		23,579	

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

	30 June 2018		31 December 2017	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	**25,468**	**0.03**	23,219	0.03

(e) Repossessed assets

During the period, the Group had not obtained any asset by taking possession of collateral held as security (31 December 2017: nil).

(All amounts in HK dollar thousands unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION

3 Non-bank mainland exposures

The Bank Types of counterparties	30 June 2018 On-balance sheet exposures	30 June 2018 Off-balance sheet exposures	30 June 2018 Total	31 December 2017 On-balance sheet exposures	31 December 2017 Off-balance sheet exposures	31 December 2017 Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures	**4,637,403**	**1,572**	**4,638,975**	4,219,582	12	4,219,594
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	**26,224**	**-**	**26,224**	30,272	453,366	483,638
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	**10,083,934**	**1,015,287**	**11,099,221**	9,209,284	948,601	10,157,885
4. Other entities of central government not reported in item 1 above	**654,567**	**-**	**654,567**	580,924	-	580,924
5. Other entities of local governments not reported in item 2 above	**67,511**	**-**	**67,511**	67,508	-	67,508
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**5,992,949**	**980,397**	**6,973,346**	4,423,548	843,733	5,267,281
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**559,515**	**222**	**559,737**	566,744	56	566,800
Total	**22,022,103**	**1,997,478**	**24,019,581**	19,097,862	2,245,768	21,343,630
Total assets after provision	**180,523,054**			176,700,450		
On-balance sheet exposures as percentage of total assets	**12.20%**			10.81%		

(All amounts in HK dollar thousands unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION

4 Currency concentrations

As at 30 June 2018	**Spot assets**	**Spot liabilities**	**Forward purchases**	**Forward sales**	**Net options position**	**Net long / (short) position**	**Net structural position**
Equivalent in Hong Kong dollars							
US Dollars	**68,183,000**	**(63,204,000)**	**20,712,000**	**(21,029,000)**	**-**	**4,662,000**	**2,047,000**
Pound Sterling	**3,487,000**	**(3,523,000)**	**1,353,000**	**(1,323,000)**	**-**	**(6,000)**	**18,000**
Renminbi	**19,528,000**	**(18,283,000)**	**7,506,000**	**(7,969,000)**	**-**	**782,000**	**5,335,000**
Canadian Dollars	**1,407,000**	**(1,466,000)**	**86,000**	**(25,000)**	**-**	**2,000**	**-**
Australian Dollars	**3,526,000**	**(3,529,000)**	**597,000**	**(590,000)**	**-**	**4,000**	**-**
Other currencies and gold	**2,556,000**	**(2,570,000)**	**3,066,000**	**(3,016,000)**	**-**	**36,000**	**-**
	98,687,000	**(92,575,000)**	**33,320,000**	**(33,952,000)**	**-**	**5,480,000**	**7,400,000**

As at 31 December 2017	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long / (short) position	Net structural position
Equivalent in Hong Kong dollars							
US Dollars	67,811,000	(64,626,000)	5,829,000	(6,433,000)	-	2,581,000	6,865,000
Pound Sterling	3,328,000	(3,377,000)	793,000	(770,000)	-	(26,000)	34,000
Renminbi	19,262,000	(18,584,000)	3,746,000	(3,713,000)	-	711,000	1,963,000
Canadian Dollars	1,638,000	(1,689,000)	83,000	(31,000)	-	1,000	-
Australian Dollars	3,647,000	(3,629,000)	262,000	(253,000)	-	27,000	-
Other currencies and gold	2,586,000	(2,724,000)	1,334,000	(1,160,000)	-	36,000	-
	98,272,000	(94,629,000)	12,047,000	(12,360,000)	-	3,330,000	8,862,000

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 net options position is calculated based on the delta-weighted positions of all foreign exchange option contracts.

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

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

1 Key prudential ratios

		30 June 2018	31 March 2018	31 December 2017	30 September 2017	30 June 2017
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	**23,456,456**	23,356,671	22,775,378	22,191,993	21,415,232
2	Tier 1	**23,456,456**	23,356,671	22,775,378	22,191,993	21,415,232
3	Total capital	**26,485,373**	26,383,849	25,769,482	23,203,311	22,413,527
Risk Weighted Amounts (RWA)						
4	Total RWA	**142,008,259**	138,241,149	136,106,777	130,877,035	127,584,724
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	**16.5%**	16.9%	16.7%	17.0%	16.8%
6	Tier 1 ratio (%)	**16.5%**	16.9%	16.7%	17.0%	16.8%
7	Total capital ratio (%)	**18.7%**	19.1%	18.9%	17.7%	17.6%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	**1.9%**	1.9%	1.3%	1.3%	1.3%
9	Countercyclical capital buffer requirement (%)	**1.2%**	1.2%	0.8%	0.8%	0.8%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	**0.0%**	0.0%	0.0%	0.0%	0.0%
11	Total AI-specific CET1 buffer requirements (%)	**3.1%**	3.1%	2.1%	2.1%	2.1%
12	CET1 available after meeting the minimum capital requirements (%)	**10.5%**	10.9%	10.7%	9.7%	9.6%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	**196,710,865**	195,744,711	193,118,657	190,824,052	186,738,522
14	LR (%)	**11.9%**	11.9%	11.8%	11.6%	11.5%
Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)						
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	**N/A**	N/A	N/A	N/A	N/A
16	Total net cash outflows	**N/A**	N/A	N/A	N/A	N/A
17	LCR (%)	**N/A**	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	**46.3%**	44.1%	46.1%	46.3%	45.0%
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)						
	Applicable to category 1 institution only:					
18	Total available stable funding	**N/A**	N/A	N/A	N/A	N/A
19	Total required stable funding	**N/A**	N/A	N/A	N/A	N/A
20	NSFR (%)	**N/A**	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	**182.5%**	193.1%	N/A	N/A	N/A

Footnote:
N/A Not applicable

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy

The calculation of the capital adequacy ratios as at 30 June 2018 and 31 December 2017 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratios represent the consolidated ratios of the Bank's Hong Kong offices and its 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 shows the balance sheet based on accounting scope of consolidation and the regulatory scope of consolidation, and the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Composition of Regulatory Capital as at 30 June 2018.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Composition of Regulatory Capital
Assets			
Cash and balances with banks	23,255,768	23,249,485	
of which: stage1and stage 2 impairment allowances reflected in regulatory capital		*(737)*	(1)
Placements with and loans and advances to banks	14,933,023	14,933,023	
of which: stage1and stage 2 impairment allowances reflected in regulatory capital		*(481)*	(2)
Loans and advances to customers	83,661,578	83,661,578	
of which: stage1and stage 2 impairment allowances reflected in regulatory capital		*(330,745)*	(3)
Financial assets at fair value through profit or loss	1,834,283	1,814,453	
Derivative financial instruments	257,520	257,520	
Investment securities at fair value through other comprehensive income	54,700,848	54,626,715	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*1,753,920*	(4)
Investment securities at amortised cost	2,425,690	2,425,690	
of which: stage1and stage 2 impairment allowances reflected in regulatory capital		*(18)*	(5)
Properties for sale	380,916	380,916	
Investments in joint ventures	351,543	113,000	
Investments in and amounts due from subsidiaries	-	201,140	
of which: stage1and stage 2 impairment allowances reflected in regulatory capital		*(8,837)*	(6)
Properties and equipment	2,365,257	2,316,369	
Investment properties	1,016,629	1,047,273	
Deferred income tax assets	86,662	87,989	(7)
Other assets	2,301,068	2,205,417	
of which: stage1and stage 2 impairment allowances reflected in regulatory capital		*(322)*	(8)
Total assets	**187,570,785**	**187,320,568**	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Composition of Regulatory Capital
Liabilities			
Deposits and balances from banks	7,569,415	7,569,415	
Deposits from customers	147,987,523	147,987,523	
Derivatives financial instruments	262,857	262,857	
Amounts due to subsidiaries	-	341,255	
Subordinated debt	1,948,206	1,948,206	(9)
Other liabilities	2,879,282	2,724,356	
Provisions	109,965	108,877	
Current income tax liabilities	341,917	340,143	
Deferred income tax liabilities	26	-	
Total liabilities	**161,099,191**	**161,282,632**	
Equity			
Share capital	2,000,000	2,000,000	(10)
Retained earnings	13,921,520	13,576,314	(11)
Reserves	10,471,647	10,461,622	
of which: accumulated other comprehensive income/(loss), other than regulatory reserve		*9,722,051*	(12)
regulatory reserve		*739,571*	(13)
Non-controlling interests	78,427	-	
Total equity	**26,471,594**	**26,037,936**	
Total equity and liabilities	**187,570,785**	**187,320,568**	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

The Bank has already applied full capital deductions under the BCR. The Composition of Regulatory Capital as at 30 June 2018 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	(10)
2	Retained earnings	13,576,314	(11)
3	Disclosed reserves	10,461,622	(12) + (13)
4	Directly issued capital subject to phase out arrangements from CET1 (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**	**26,037,936**	
	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 associated deferred tax liabilities)	87,989	(7)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital 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)	1,753,920	(4)
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 (net of associated deferred tax liabilities)	Not applicable	
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the ordinary share 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	739,571	
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	739,571	(13)
26c	Securitization exposures specified in a notice given by the Monetary Authority	-	
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)	-	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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)		
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**	**2,581,480**	
29	**CET1 capital**	**23,456,456**	
	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)**	**23,456,456**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	1,948,206	(9)
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 provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,080,711	(13) - (1) - (2) - (3) -(5) - (6) - (8)
51	**Tier 2 capital before regulatory deductions**	**3,028,917**	
	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)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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 (Continued)		
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**	**-**	
58	**Tier 2 capital**	**3,028,917**	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	**26,485,373**	
60	**Total risk weighted assets**	**142,008,259**	
	Capital ratios (as a percentage of risk weighted assets)		
61	**CET1 capital ratio**	**16.5%**	
62	**Tier 1 capital ratio**	**16.5%**	
63	**Total capital ratio**	**18.7%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**3.1%**	
65	of which: capital conservation buffer requirement	1.9%	
66	of which: bank specific countercyclical capital buffer requirement	1.2%	
67	of which: higher loss absorbency requirement	0.0%	
68	**CET1 (as a percentage of RWA) available after meeting minimum capital requirements**	**10.5%**	
	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	2,521,037	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	568,039	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
	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 BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,080,711	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	1,601,193	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	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)	-	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

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:

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">10</td><td>Deferred tax assets (“DTA”) (net of associated deferred tax liabilities)</td><td>87,989</td><td>-</td></tr>
<tr><td colspan="3"><u>Explanation</u>
As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs 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 AI 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. 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 MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</td></tr>
<tr><td colspan="4">Remarks:
The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</td></tr>
</table>

Footnote:
CET1 Common Equity Tier 1
AT1 Additional Tier 1

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

The main features of regulatory capital instruments as at 30 June 2018 are shown below:

		Ordinary shares	Subordinated notes
1	Issuer	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	XS1720518478
3	Governing law(s) of the instrument	Laws of Hong Kong	English law, except that the subordination provisions shall be governed by the laws of Hong Kong.
	Regulatory treatment		
4	Transitional Basel III rules#	N/A	N/A
5	Post-transitional Basel III rules+	Common Equity Tier 1	Tier 2
6	Eligible at solo*/group/group & solo	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$2,000 million	HK$1,948 million
9	Par value of instrument	N/A	US$250 million
10	Accounting classification	Shareholders' equity	Liability-amortised cost
11	Original date of issuance	1951, 1968, 1969, 1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000	29 November 2017
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	29 November 2027
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	One-off call date: 29 November 2022. Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the Hong Kong Monetary Authority ("HKMA").
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Fixed
18	Coupon rate and any related index	N/A	3.75% p.a. Fixed until 29 November 2022 and thereafter reset to a new fixed rate equal to the sum of the then prevailing U.S. Treasury Rate and the Spread at Pricing.
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

The main features of regulatory capital instruments as at 30 June 2018 are shown below: (Continued)

		Ordinary shares	Subordinated notes
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	Yes
31	If write-down, write-down trigger(s)	N/A	The earlier of the HKMA notifying the issuer in writing: (i) that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable or (ii) that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.
32	If write-down, full or partial	N/A	May be in part or in full
33	If write-down, permanent or temporary	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

The main features of regulatory capital instruments as at 30 June 2018 are shown below: (Continued)

		Ordinary shares	Subordinated notes
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N/A	The rights of the holders will, in the event of the winding up of the Bank, rank (i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), and (b) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Notes or rank senior to the Notes by operation of law or contract; (ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and (iii) senior in right of payment to, and of all claims of, (a) the holders of Junior Obligations, and (b) holders of Tier 1 Capital Instruments of the Issuer.
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

Footnote:
- # 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
- N/A Not applicable

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

3 Overview of RWA

The table below shows the breakdowns of RWA for various risks as at 30 June 2018 and 31 March 2018 and the minimum capital requirements as at 30 June 2018 are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		30 June 2018	31 March 2018	30 June 2018
1	Credit risk for non-securitization exposures	**125,729,032**	124,675,314	**10,058,323**
2	Of which STC approach	**125,729,032**	124,675,314	**10,058,323**
2a	Of which BSC approach	**-**	-	**-**
3	Of which foundation IRB approach	**-**	-	**-**
4	Of which supervisory slotting criteria approach	**-**	-	**-**
5	Of which advanced IRB approach	**-**	-	**-**
6	Counterparty default risk and default fund contributions	**946,316**	627,216	**75,705**
7	Of which SA-CCR	**Not applicable**	Not applicable	**Not applicable**
7a	Of which CEM	**946,316**	627,216	**75,705**
8	Of which IMM(CCR) approach	**-**	-	**-**
9	Of which others	**-**	-	**-**
10	CVA risk	**229,875**	350,200	**18,390**
11	Equity positions in banking book under the simple risk-weight method and internal models method	**-**	-	**-**
12	Collective investment scheme ("CIS") exposures - LTA	**Not applicable**	Not applicable	**Not applicable**
13	CIS exposures - MBA	**Not applicable**	Not applicable	**Not applicable**
14	CIS exposures - FBA	**Not applicable**	Not applicable	**Not applicable**
14a	CIS exposures - combination of approaches	**Not applicable**	Not applicable	**Not applicable**
15	Settlement risk	**-**	-	**-**
16	Securitization exposures in banking book	**-**	-	**-**
17	Of which SEC-IRBA	**-**	-	**-**
18	Of which SEC-ERBA	**-**	-	**-**
19	Of which SEC-SA	**-**	-	**-**
19a	Of which SEC-FBA	**-**	-	**-**
20	Market risk	**5,903,538**	4,048,538	**472,283**
21	Of which STM approach	**5,903,538**	4,048,538	**472,283**
22	Of which IMM approach	**-**	-	**-**
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	**Not applicable**	Not applicable	**Not applicable**
24	Operational risk	**7,779,400**	7,527,613	**622,352**
25	Amounts below the thresholds for deduction (subject to 250% RW)	**1,420,098**	1,012,268	**113,608**
26	Capital floor adjustment	**-**	-	**-**
26a	Deduction to RWA	**-**	-	**-**
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	**-**	-	**-**
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	**-**	-	**-**
27	**Total**	**142,008,259**	**138,241,149**	**11,360,661**

REGULATORY DISCLOSURE

4 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 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 which have an applicable JCCyB ratio greater than zero as at 30 June 2018.

	Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
		%	HK$'000	%	HK$'000
1	Hong Kong SAR	1.9%	60,174,181		
2	Sweden	2.0%	81		
3	United Kingdom	0.5%	364,773		
	Sum		**60,539,035**		
	Total		**96,446,718**	**1.2%**	**1,664,337**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

5 Leverage ratio

The leverage ratios ("LR") represent the consolidated ratios computed in the same regulatory consolidation basis as the capital adequacy ratio. The table below presents the summary comparison of accounting assets against leverage ratio exposure measure as at 30 June 2018 .

	Item	Value under the LR framework
1	Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	187,944,422
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(250,217)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	1,259,351
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	10,712,426
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(373,637)
7	Other adjustments	(2,581,480)
8	**Leverage ratio exposure measure**	**196,710,865**

The leverage ratios as at 30 June 2018 and 31 March 2018 are shown below:

		30 June 2018	31 March 2018
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	187,436,685	187,313,669
2	Less: Asset amounts deducted in determining Tier 1 capital	(2,581,480)	(2,623,753)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**184,855,205**	**184,689,916**
	Exposures arising from derivative contracts		
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	257,520	143,292
5	Add-on amounts for PFE associated with all derivative contracts	1,259,351	914,114
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	**1,516,871**	**1,057,406**
	Exposures arising from SFTs		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	**-**	**-**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

5 Leverage ratio (Continued)

The leverage ratios as at 30 June 2018 and 31 March 2018 are shown below: (Continued)

		30 June 2018	31 March 2018
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	49,448,360	47,420,782
18	Less: Adjustments for conversion to credit equivalent amounts	(38,735,934)	(37,053,977)
19	**Off-balance sheet items**	**10,712,426**	**10,366,805**
	Capital and total exposures		
20	**Tier 1 capital**	**23,456,456**	**23,356,671**
20a	**Total exposures before adjustments for specific and collective provisions**	**197,084,502**	**196,114,127**
20b	**Adjustments for specific and collective provisions**	**(373,637)**	**(369,416)**
21	**Total exposures after adjustments for specific and collective provisions**	**196,710,865**	**195,744,711**
	Leverage ratio		
22	**Leverage ratio**	**11.9%**	**11.9%**

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

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

6 Credit risk

(a) Credit quality of exposures as at 30 June 2018

		Gross carrying amounts of			
		Defaulted exposures	Non-defaulted exposures	Allowances / impairments	Net values
1	Loans	454,001	83,570,820	363,243	83,661,578
2	Debt securities	-	53,090,816	18	53,090,798
3	Off-balance sheet exposures	-	14,618,247	5,954	14,612,293
4	**Total**	**454,001**	**151,279,883**	**369,215**	**151,364,669**

(b) Changes in defaulted loans and debt securities

		Amount
1	Defaulted loans and debt securities as at end December 2017	492,586
2	Loans and debt securities that have defaulted since the last reporting period	8,040
3	Returned to non-defaulted status	-
4	Amounts written off	(2,316)
5	Other changes	(44,309)
6	**Defaulted loans and debt securities as at end June 2018**	**454,001**

(c) Overview of recognized credit risk mitigation as at 30 June 2018

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	80,094,058	3,567,520	1,863,977	1,703,543	-
2	Debt securities	53,090,798	-	-	-	-
3	**Total**	**133,184,856**	**3,567,520**	**1,863,977**	**1,703,543**	**-**
4	Of which defaulted	3,819	430,701	430,701	-	-

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

6 Credit risk (Continued)

(d) Credit risk exposures and effects of recognized credit risk mitigation – for STC approach as at 30 June 2018

	Exposure classes	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	12,329,327	-	12,329,327	-	47,838	0%
2	PSE exposures	-	-	-	-	-	0%
2a	Of which: domestic PSEs	-	-	-	-	-	0%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	15,645	-	15,645	-	-	0%
4	Bank exposures	67,142,169	1,372,137	68,840,385	289,707	28,714,182	42%
5	Securities firm exposures	843,487	822,785	843,487	-	421,744	50%
6	Corporate exposures	72,010,580	35,387,345	69,769,615	5,938,516	73,045,983	96%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	354,473	-	1,779,924	-	135,881	8%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	4,838,554	2,902,398	4,669,223	183,427	3,639,488	75%
11	Residential mortgage loans	10,495,053	1,394,591	10,495,053	695,610	5,909,199	53%
12	Other exposures which are not past due exposures	13,952,228	7,569,104	13,238,857	122,155	13,361,012	100%
13	Past due exposures	449,226	-	449,226	-	453,705	101%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**182,430,742**	**49,448,360**	**182,430,742**	**7,229,415**	**125,729,032**	**66%**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

6 Credit risk (Continued)

(e) Credit risk exposures by asset classes and by risk weights – for STC approach as at 30 June 2018

	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	12,090,138	-	239,189	-	-	-	-	-	-	-	**12,329,327**
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	**-**
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	**-**
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	**-**
3	Multilateral development bank exposures	15,645	-	-	-	-	-	-	-	-	-	**15,645**
4	Bank exposures	-	-	24,179,881	-	42,144,011	-	2,806,200	-	-	-	**69,130,092**
5	Securities firm exposures	-	-	-	-	843,487	-	-	-	-	-	**843,487**
6	Corporate exposures	-	-	63,723	-	5,222,339	-	70,422,069	-	-	-	**75,708,131**
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	**-**
8	Cash items	1,158,462	-	606,977	-	-	-	14,485	-	-	-	**1,779,924**
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	**-**
10	Regulatory retail exposures	-	-	-	-	-	4,852,650	-	-	-	-	**4,852,650**
11	Residential mortgage loans	-	-	-	8,007,892	-	305,337	2,877,434	-	-	-	**11,190,663**
12	Other exposures which are not past due exposures	-	-	-	-	-	-	13,361,012	-	-	-	**13,361,012**
13	Past due exposures	449	-	-	-	-	-	438,922	9,855	-	-	**449,226**
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	**-**
15	**Total**	**13,264,694**	**-**	**25,089,770**	**8,007,892**	**48,209,837**	**5,157,987**	**89,920,122**	**9,855**	**-**	**-**	**189,660,157**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

7 Counterparty credit risk

(a) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches as at 30 June 2018

		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	256,594	1,259,351		-	1,515,945	946,316
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**946,316**

(b) CVA capital charge as at 30 June 2018

		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method		
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	1,515,945	229,875
4	**Total**	**1,515,945**	**229,875**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

7 Counterparty credit risk (Continued)

(c) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach as at 30 June 2018

	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	**-**
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	**-**
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	**-**
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	**-**
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	**-**
4	Bank exposures	-	-	238,658	-	547,743	-	9,577	-	-	-	**795,978**
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	**-**
6	Corporate exposures	-	-	-	-	209,662	-	424,470	-	-	-	**634,132**
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	**-**
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	**-**
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	**-**
10	Other exposures which are not past due exposures	-	-	-	-	-	-	85,835	-	-	-	**85,835**
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	**-**
12	**Total**	**-**	**-**	**238,658**	**-**	**757,405**	**-**	**519,882**	**-**	**-**	**-**	**1,515,945**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

7 Counterparty credit risk (Continued)

(d) Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) as at 30 June 2018

		Derivative contracts				SFTs	
		Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash - other currencies	-	-	-	23,228	-	-
2	**Total**	**-**	**-**	**-**	**23,228**	**-**	**-**

(e) Credit-related derivatives contracts

The Group did not have any credit-related derivatives contracts as at 30 June 2018.

(f) Exposures to CCPs

The Group did not have any exposures to CCPs as at 30 June 2018.

8 Market risk

Market risk under STM approach as at 30 June 2018

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	1,441,850
2	Equity exposures (general and specific risk)	7,125
3	Foreign exchange (including gold) exposures	4,454,000
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	563
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**5,903,538**

REVIEW OF OPERATIONS

Financial Review

In the first half of 2018, Shanghai Commercial Bank Limited (the "Bank") sustained its growth momentum, and attained a number of impressive achievements resulting from the implementation of our 5-year strategic plan for 2017-2021.

For the first six months ended 30 June 2018, the consolidated profit after tax of the Bank was HK$1,428 million, an increase of HK$159 million or 12.6% above that for the same period last year, largely attributable to strong performance in net interest income, brokerage and fee income and a lower provision for impairment allowances. Net interest income increased by 18.4% mainly due to loan growth, and net fee and commission income recorded an even stronger growth of 22.1% mainly driven by the securities trading, investment and life insurance businesses amid broad-based momentum.

The overall loan-to-deposit ratio rose from 53.5% at the end of 2017 to 56.8% as loans and advances grew by 7.1% to HK$84 billion, while customer deposits increased by 0.9% to HK$148 billion. Largely due to the enhanced average yield from interbank placements, loans and investments, the average net interest margin widened by 14 basis points to 1.98% from 1.84% for the same period last year and 12 basis points higher than the 2017 yearly average of 1.86%.

The Bank's total expenses at HK$776 million were 4.3% higher than that of HK$744 million for the same period last year. The increases could be attributed mainly to higher personnel expenses and increasing compliance cost due to more stringent regulatory requirements. Cost-to-income ratio continued to stay low and improved further from the same period last year by one percentage point to 30.9%.

The total comprehensive income attributable to equity holders at HK$1,875 million for the six months ended 30 June 2018 was HK$188 million or 9.1% lower than that of the same period last year when a much higher mark-to-market valuation of the holdings in the listed Bank of Shanghai Co., Ltd. ("Bank of Shanghai") shares and other debt securities was registered.

Total assets at HK$188 billion and shareholders' funds at HK$26 billion were respectively 1.6% and 3.6% higher compared to the balances at last year end. Returns on average total assets and average equity for the first half of 2018 were 1.5% and 11.0%, or increases of 8 and 82 basis points respectively against that of same period last year. Capital and liquidity levels remained robust with average liquidity maintenance ratio at 45.2% and capital adequacy ratio at 18.7% at the end of June 2018.

Operation Strategies

We are deeply committed to the local market and the Bank has built the strong reputation as a commercial bank with competitive edge to provide small and medium businesses customized financing solutions. In light of the ever-evolving operating environment mainly driven by elevating customer expectation on banking experience, the Bank has revamped the internet banking and the mobile banking services. We have also introduced the two-factor authentication (2FA) token service for online trading of wealth management products, the new "Person to Merchant" (P2M) service and the token-free 2FA SMS, One-Time Password service for online stock trading. To further enhance customer experience and transaction convenience, the Bank has been working on a technical infrastructure set up for the Faster Payment System (FPS) project pioneered and engineered by the regulator to provide a round-the-clock industry-wide interbank real-time payment solution. While it is anticipated that the convergence of banking and technology will entail enormous opportunities, the Bank upholds the motto, "For Personalized Service", and will continue to offer customers with innovative, simple and easy to use products and services.

REVIEW OF OPERATIONS (CONTINUED)

Operation Strategies (Continued)

Thanks to our tri-bank alliance with Bank of Shanghai in Mainland China and our parent bank, The Shanghai Commercial & Savings Bank, Ltd., in Taiwan, we have built an efficient platform for pooling resources, sharing intelligence and creating synergies. Over the years, the business referrals brought about by the tri-bank alliance have positively contributed to expanding our market coverage in Mainland China. Our U.S. Branches sustained strong growth momentum, continuing to buttress the profit of the Group. In the meantime, we note the mounting concerns over the external trade outlook in the wake of increased trade tensions between the U.S. and the Mainland. We will keep a close eye on the developments and assess the relative impact on our Hong Kong and Overseas operations.

In terms of controls, the Bank has made significant investments in strengthening its compliance and risk management capabilities, including substantial increase in manpower resources and introduction of robust monitoring procedures and systems to enhance its Anti-Money Laundering and Counter-Financing of Terrorism framework and controls, together with upgrades in cyber security and other regulatory compliance initiatives.

Social Responsibility

As one of the distinguished local Chinese banks firmly rooted in Hong Kong, we are committed to fulfilling our Corporate Social Responsibility ("CSR") and fostering a vibrant corporate culture bank-wide. Our CSR initiatives are ongoing and include donations to charities and non-governmental organizations, provision of scholarships and internship opportunities to tertiary institutions and university students. Over one-third of our staff have dedicated their time and efforts in serving the community through participating in charity activities organized by The Community Chest of Hong Kong, Po Leung Kuk, Green Power and UNICEF as well as volunteer services in helping the needy. Shanghai Commercial Pok Oi Cycle for Millions is one of our naming landmark engagements widely recognized in the local community to promote sustainability development through living green. Meanwhile, the Bank encourages our customers to opt for paperless banking services such as the use of e-statements through our improved internet or mobile banking platform.

Looking Ahead

As the Bank's 5-year strategic plan moves forward, the Board of Directors and the management are regularly revisiting the plan to make the business strategies more relevant in today's challenging local and global operating environment to embrace any new opportunities and to control emerging risks. We will continue to spare no effort in delivering greater value to our stakeholders in the long term and providing quality services to our customers.

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

Hong Kong, 15 August 2018

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 44, which comprises the condensed consolidated statement of financial position of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and 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, 15 August 2018