



上海商業銀行
SHANGHAI COMMERCIAL BANK

2021

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT



Thank you

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

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021

Contents

1	Condensed Consolidated Statement of Profit or Loss
2	Condensed Consolidated Statement of Comprehensive Income
3	Condensed Consolidated Statement of Financial Position
4	Condensed Consolidated Statement of Changes in Equity
5	Condensed Consolidated Statement of Cash Flows
7	Notes to the Group Interim Financial Disclosure Statement
41	Regulatory Disclosures (Unaudited)
64	Review of Operations
65	Statement of Compliance
66	Report on Review of Interim Financial Information



Welcome to Shanghai Commercial Bank Limited's website



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Interest income	6	2,420,338	3,126,144
Interest expense	6	(555,812)	(1,322,361)
Net interest income		1,864,526	1,803,783
Fee and commission income	7	473,261	428,384
Fee and commission expense	7	(29,217)	(27,080)
Net fee and commission income	7	444,044	401,304
Net trading income	8	161,539	119,750
Net gains from disposal of investment securities at fair value through other comprehensive income		79,621	96,558
Dividend income from investment securities at fair value through other comprehensive income		4,354	2,820
Other operating income	9	70,397	74,004
Net earned insurance premium	10	17,971	22,219
Net insurance claims incurred and movement in policyholders' liabilities	10	(12,361)	(16,072)
Operating expenses	11	(857,226)	(798,710)
Credit impairment losses	12	(44,221)	(93,587)
Operating profit		1,728,644	1,612,069
Share of net profits/(losses) of associates and joint venture		54,142	(988)
Profit before income tax		1,782,786	1,611,081
Income tax expense	13	(336,076)	(332,221)
Profit for the period		1,446,710	1,278,860
Attributable to:			
Equity holders of the Bank		1,443,398	1,276,566
Non-controlling interests		3,312	2,294
		1,446,710	1,278,860

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2021

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Profit for the period	1,446,710	1,278,860
Other comprehensive income		
<u>Items that may be reclassified to profit or loss</u>		
Exchange differences on translation of overseas operations	21,916	(50,618)
Investment securities at fair value through other comprehensive income		
– Changes in fair value	(164,710)	411,050
– Change in credit impairment losses recognised in profit or loss	6,744	6,696
– Fair value changes transferred to profit or loss on disposal	(79,621)	(96,558)
– Deferred income tax	40,314	(51,891)
Share of reserves of associates and joint venture	3,786	(15,809)
<u>Items that will not be reclassified to profit or loss</u>		
Equity investments at fair value through other comprehensive income		
– Changes in fair value	230,079	(651,370)
– Deferred income tax	(2,443)	2,787
Share of reserves of associates and joint venture	161	–
Other comprehensive income for the period, net of tax	56,226	(445,713)
Total comprehensive income for the period	1,502,936	833,147
Attributable to:		
Equity holders of the Bank	1,499,624	830,860
Non-controlling interests	3,312	2,287
Total comprehensive income for the period	1,502,936	833,147

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2021 (unaudited)	31 December 2020 (audited)
ASSETS			
Cash and balances with banks	14	33,084,559	29,995,254
Placements with banks	15	9,350,289	9,234,097
Loans and advances to customers	16	100,083,488	101,247,939
Financial assets at fair value through profit or loss	22(b)	2,272,621	2,198,751
Derivative financial instruments	17	329,801	842,146
Investment securities at fair value through other comprehensive income	22(b)	78,380,648	75,689,043
Investment securities at amortised cost		1,387,644	344,670
Properties for sale	18	658,041	591,418
Investments in associates and joint venture		497,334	443,480
Properties and equipment	19	2,590,610	2,657,156
Investment properties	20	1,007,119	1,010,526
Deferred income tax assets	24	20,881	27,668
Other assets		1,889,486	2,450,000
TOTAL ASSETS		231,552,521	226,732,148
LIABILITIES			
Deposits and balances from banks		9,783,168	7,840,334
Deposits from customers	21	179,756,420	177,796,939
Derivative financial instruments	17	239,126	924,669
Subordinated debts	23	4,249,793	4,241,480
Other liabilities		3,584,876	3,206,269
Current income tax liabilities		186,541	117,787
Deferred income tax liabilities	24	68,342	109,871
TOTAL LIABILITIES		197,868,266	194,237,349
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS			
Share capital		2,000,000	2,000,000
Retained earnings		20,120,170	18,977,170
Reserves	25	11,469,688	11,426,064
		33,589,858	32,403,234
Non-controlling interests in equity		94,397	91,565
TOTAL EQUITY		33,684,255	32,494,799
TOTAL EQUITY AND LIABILITIES		231,552,521	226,732,148

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2021

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders			Non-controlling interests	Total equity
		Share capital	Reserves	Retained earnings (including proposed dividends)		
As at 1 January 2020		2,000,000	11,378,917	17,158,968	86,379	30,624,264
Profit for the period		–	–	1,276,566	2,294	1,278,860
Other comprehensive income net of tax						
Net change in fair value of investment securities at fair value through other comprehensive income		–	(379,279)	–	(7)	(379,286)
Currency translation difference arising from overseas operations		–	(23,720)	(26,898)	–	(50,618)
Share of reserves of associates and joint venture		–	(15,809)	–	–	(15,809)
Total other comprehensive income		–	(418,808)	(26,898)	(7)	(445,713)
Payment of dividend relating to 2019		–	–	(940,000)	(480)	(940,480)
As at 30 June 2020 (unaudited)		<u>2,000,000</u>	<u>10,960,109</u>	<u>17,468,636</u>	<u>88,186</u>	<u>30,516,931</u>
As at 1 January 2021		<u>2,000,000</u>	<u>11,426,064</u>	<u>18,977,170</u>	<u>91,565</u>	<u>32,494,799</u>
Profit for the period		–	–	1,443,398	3,312	1,446,710
Other comprehensive income net of tax						
Net change in fair value of investment securities at fair value through other comprehensive income	25	–	30,363	–	–	30,363
Currency translation difference arising from overseas operations	25	–	9,314	12,602	–	21,916
Share of reserves of associates and joint venture	25	–	3,947	–	–	3,947
Total other comprehensive income		–	43,624	12,602	–	56,226
Payment of dividend relating to 2020		–	–	(313,000)	(480)	(313,480)
As at 30 June 2021 (unaudited)		<u>2,000,000</u>	<u>11,469,688</u>	<u>20,120,170</u>	<u>94,397</u>	<u>33,684,255</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Cash flows from operating activities			
Profit before income tax		1,782,786	1,611,081
Share of net (profits)/losses of associates and joint venture		(54,142)	988
Credit impairment losses	12	44,221	93,587
Depreciation expenses		119,330	121,630
Net (gains)/losses from disposal of equipment	9	(5)	25
Net gains from disposal of investment securities at fair value through other comprehensive income		(79,621)	(96,558)
Interest income on investment securities at amortised cost	6	(423)	(14,846)
Interest income on investment securities at fair value through other comprehensive income	6	(609,282)	(839,703)
Interest expense on subordinated debts	6	96,342	94,542
Interest expense on lease liabilities	6	458	4,714
Dividend income		(4,354)	(2,820)
Hong Kong profits tax paid		(105,305)	(407,772)
Overseas tax paid		(181,091)	(158,116)
Effect of exchange rate changes		152,080	519,839
		<hr/>	<hr/>
Cash flows from operating activities before changes in operating assets and liabilities		1,160,994	926,591
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Changes in operating assets and liabilities:			
– Net decrease/(increase) in balances with banks with original maturity beyond 3 months		2,948,687	(28,252)
– Net decrease/(increase) in placements with banks with original maturity beyond 3 months		918,060	(2,433,912)
– Net increase in financial assets at fair value through profit or loss		(52,832)	(279,988)
– Net increase in derivative financial instruments		(173,198)	(69,161)
– Net decrease/(increase) in loans and advances to customers		1,130,658	(701,441)
– Net decrease/(increase) in right-of-use assets		4,961	(41,115)
– Net decrease/(increase) in other assets		582,455	(841,092)
– Net increase/(decrease) in deposits and balances from banks		1,942,834	(2,112,850)
– Net increase in deposits from customers		1,795,331	1,523,429
– Net (decrease)/increase in lease liabilities		(5,984)	41,115
– Net increase in other liabilities		435,624	1,644,781
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		10,687,590	(2,371,895)
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Cash flows from investing activities		
Interest received on investment securities at amortised cost and fair value through other comprehensive income	626,979	839,242
Dividends received on investment securities at fair value through other comprehensive income	4,354	2,820
Dividends received from associates and joint venture	4,235	2,135
Purchases of properties and equipment	(52,592)	(51,486)
Additions of investment properties	(1,040)	(2,272)
Additions of properties for sale	(66,623)	(37,217)
Proceeds from sale of equipment	10	150
Purchases of investment securities at fair value through other comprehensive income	(37,729,981)	(43,103,829)
Purchases of investment securities at amortised cost	(1,166,303)	(1,043,564)
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income	34,735,887	39,333,799
Proceeds from redemption of investment securities at amortised cost	116,494	2,205,474
Net cash used in investing activities	(3,528,580)	(1,854,748)
Cash flows from financing activities		
Interest paid on subordinated debts	(94,444)	(94,725)
Payment of lease liabilities	(57,922)	(59,221)
Dividend paid to equity holders	(313,000)	(940,000)
Dividend paid to non-controlling interests	(480)	(480)
Net cash used in financing activities	(465,846)	(1,094,426)
Net increase/(decrease) in cash and cash equivalents	6,693,164	(5,321,069)
Cash and cash equivalents as at 1 January	27,999,639	39,812,613
Effect of exchange rate changes on cash and cash equivalents	34,947	(381,316)
Cash and cash equivalents as at 30 June	34,727,750	34,110,228
Represented by:		
Cash and balances with banks with less than 3 months' original maturity	32,439,771	27,405,544
Placements with banks with less than 3 months' original maturity	2,132,795	1,708,582
Debt securities – Exchange Fund Bills with less than 3 months' original maturity	155,184	4,996,102
	34,727,750	34,110,228
Cash flows from operating, investing and financing activities included:		
Interest received	2,533,524	3,210,362
Interest paid	(530,646)	(1,329,131)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

1 General information

Shanghai Commercial Bank Limited (the “Bank”) and its subsidiaries (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 25 August 2021.

2 Basis of preparation

This Group Interim Financial Disclosure Statement for the six months ended 30 June 2021 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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the year ended 31 December 2020 that is included in the 2021 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.

The Group has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies

The accounting policies applied in the preparation of the 2021 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 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(a) New and amended standards adopted by the Group for the period ended 30 June 2021

	Effective for accounting periods beginning on or after
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments) – Interest Rate Benchmark Reform – Phase 2	1 January 2021
HKFRS 16 (Amendments) – Covid-19 Related Rent Concessions – Extension of Practical Expedient	1 April 2021

The adoption of the above new and amended standards does not have significant impact to the financial statements of the Group.

(b) Impact of standard issued but not yet applied by the Group

	Effective for accounting periods beginning on or after
HKFRS 17 "Insurance contracts"	1 January 2023

HKFRS 17 "Insurance contracts"

HKFRS 17 "Insurance contracts" is effective for the accounting period beginning on or after 1 January 2023. 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.

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 Group's audited annual financial statements for the year ended 31 December 2020.

5 Basis of consolidation

(a) Subsidiaries

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

5 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

The following is a list of the subsidiaries as at 30 June 2021:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	30 June 2021		31 December 2020	
					Total assets	Total equity	Total assets	Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares	100% ¹	10	10	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares	60% ²	15,187	14,986	15,865	15,643
Shacom Futures Limited	Hong Kong	Advising and dealing in futures contracts Hong Kong	600,000 ordinary shares	100% ¹	103,953	57,040	105,785	56,750
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	100% ¹	3,058,543	11,298	3,015,962	11,186
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US\$1 each	100% ¹	31,695	4,667	26,340	3,645
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	100% ¹	5,542	5,542	5,533	5,533
Shacom Property (CA), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	100% ¹	2,686	2,686	2,677	2,677
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	100% ¹	1,081,885	(58)	1,081,921	(29)
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	100% ¹	28,888	20,074	29,608	21,987
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	100% ¹	4,424	2,098	2,755	1,882
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares	100% ¹	337,388	166,824	420,520	165,686
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	100% ¹	876	617	835	589
Paofong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	60% ²	343,636	221,013	328,707	213,276
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100% ¹	3	(166)	6	(163)
Glory Step Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	379,475	(23,925)	360,593	(21,462)
Silver Wisdom Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	1,119,806	(34,961)	1,041,801	(24,857)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% ¹	329,219	147,479	310,013	118,441
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% ¹	330,760	148,950	310,998	119,356
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% ¹	331,956	150,290	311,960	120,463

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) Associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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.

Investments in associates and joint ventures are accounted for using the equity method, and are initially recognised in the consolidated statement of financial position 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 an associate or a joint venture equals or exceeds its interests in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

When the Group transacts with its associates or joint ventures, profits and losses resulting from such transactions are recognised in the Group's consolidated financial statements only to the extent of interests in the associates or joint ventures that are not related to the Group. Unrealised losses arising from the transactions between the Group and the associates and joint ventures are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

6 Net interest income

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Interest income		
Cash and balances with banks	81,547	278,671
Investment securities at amortised cost	423	14,846
Investment securities at fair value through other comprehensive income	609,282	839,703
Loans and advances to customers	1,725,900	1,989,244
Others	3,186	3,680
	<u> </u>	<u> </u>
Interest income on financial assets that are not measured at fair value through profit or loss	<u>2,420,338</u>	<u>3,126,144</u>
Interest expense		
Deposits and balances from banks	26,404	99,932
Deposits from customers	431,789	1,121,691
Subordinated debts	96,342	94,542
Lease liabilities	458	4,714
Others	819	1,482
	<u> </u>	<u> </u>
Interest expense on financial liabilities that are not measured at fair value through profit or loss	<u>555,812</u>	<u>1,322,361</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

7 Net fee and commission income

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Fee and commission income		
Bills	35,472	33,431
Nominees, custodian and securities brokerage	164,835	123,185
Investment products	88,581	72,085
Remittance	28,842	29,717
Credit cards	21,016	18,366
Retail banking	25,571	25,459
Insurance	23,207	23,267
Loans and advances and facility fees	84,235	101,334
Trust and other commissions	1,502	1,540
Total fee and commission income	473,261	428,384
Less: fee and commission expense	(29,217)	(27,080)
Net fee and commission income	444,044	401,304
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	140,723	153,131
– fee and commission expense	6,346	4,652
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	11,154	10,043

8 Net trading income

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Foreign exchange	140,501	109,608
Interest rate instruments	10,955	2,060
Equities	14,131	(1,884)
Other trading income	(4,048)	9,966
	161,539	119,750

“Foreign exchange” trading income includes gains and losses from spot, forward and option 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, money market instruments and interest rate swaps. “Equities” trading income includes the results of trading in equity securities and derivatives.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

9 Other operating income

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Gross rental income from investment properties	34,572	35,855
Net gains/(losses) from disposal of equipment	5	(25)
Others	<u>35,820</u>	<u>38,174</u>
	<u><u>70,397</u></u>	<u><u>74,004</u></u>

Direct operating expenses arising from investment properties of HK\$11,000 (six months ended 30 June 2020: HK\$55,000) are included in premises management expenses (Note 11).

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

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Insurance premium revenue	23,365	28,369
Insurance premium ceded to reinsurers	<u>(5,394)</u>	<u>(6,150)</u>
	<u><u>17,971</u></u>	<u><u>22,219</u></u>

The related net insurance claims incurred and movement in policyholders' liabilities of HK\$12,361,000 (six months ended 30 June 2020: HK\$16,072,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK\$386,000 (six months ended 30 June 2020: HK\$780,000).

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

11 Operating expenses

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Auditor's remuneration		
Audit services (Note a)	4,420	4,590
Non-audit and other services (Note b)	2,799	2,443
Premises management expenses	21,933	22,858
Depreciation expenses		
Properties and equipment	59,696	55,436
Right-of-use assets	55,187	61,747
Investment properties	4,447	4,447
Employee benefit expenses		
Wages and salaries and other costs (Note c)	515,922	476,177
Pension costs – defined contribution schemes	35,382	33,795
Expenses relating to short-term and low-value leases	1,223	1,186
Information technology and communications	42,780	36,117
Legal and consultancy	7,626	8,376
Printing, stationery and postage	11,365	11,246
Promotion and advertising	17,738	20,267
Others	76,708	60,025
	<u>857,226</u>	<u>798,710</u>

Note a: The above auditor's remuneration for audit services represents the fee for the audit of the Group's financial information for the interim and annual period to comply with the statutory and regulatory requirements in Hong Kong and Taiwan and is accrued on a pro-rata basis.

Note b: The above fee for non-audit and other services includes the fee 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 and is accrued on a pro-rata basis.

Note c: Employee benefit expenses include directors' emoluments. The number of employees of the Group as at 30 June 2021 was 1,868 (30 June 2020: 1,864).

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

12 Credit impairment losses

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Loans and advances to customers	32,702	78,797
Balances with banks and placements with banks	684	1,193
Investment securities	6,746	6,682
Other assets	365	801
Loan commitments and financial guarantee contracts	3,724	6,114
	<u>44,221</u>	<u>93,587</u>

13 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profits for the six months ended 30 June 2021. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2021 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 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Current income tax:		
– Hong Kong profits tax	201,383	184,104
– Overseas taxation	153,677	145,498
– Over provisions in respect of prior years	(22,345)	(442)
Total current income tax	<u>332,715</u>	<u>329,160</u>
Deferred income tax:		
– Hong Kong deferred tax	(3,666)	(5,259)
– Overseas deferred tax	7,027	8,320
Total deferred income tax	<u>3,361</u>	<u>3,061</u>
Income tax expense	<u>336,076</u>	<u>332,221</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

14 Cash and balances with banks

	30 June 2021 (unaudited)	31 December 2020 (audited)
Cash in hand	773,029	731,815
Balances with central banks and Hong Kong Monetary Authority	8,692,238	4,223,675
Balances with banks	<u>23,620,783</u>	<u>25,040,710</u>
	33,086,050	29,996,200
Less: Stage 1 credit impairment allowances	<u>(1,491)</u>	<u>(946)</u>
	<u>33,084,559</u>	<u>29,995,254</u>

Included in the above amounts, HK\$439,758,000 (31 December 2020: HK\$299,931,000) were deposited in central banks or designated banks as at 30 June 2021, to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business.

15 Placements with banks

	30 June 2021 (unaudited)	31 December 2020 (audited)
Placements with banks maturing between 1 and 12 months	9,350,720	9,239,840
Less: credit impairment allowances		
– Stage 1	(431)	(298)
– Stage 3	–	(5,445)
	<u>9,350,289</u>	<u>9,234,097</u>

Included in the above amounts, HK\$318,353,000 (31 December 2020: HK\$319,886,000) were deposited with designated banks in the People's Republic of China as at 30 June 2021, to comply with the local statutory requirements.

As at 30 June 2021, no placement with bank (31 December 2020: HK\$5,445,000) was classified as Stage 3.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers

	30 June 2021 (unaudited)	31 December 2020 (audited)
Gross loans and advances to customers	100,608,038	101,738,494
Less: credit impairment allowances		
– Stage 1	(357,307)	(326,031)
– Stage 2	(114,891)	(118,861)
– Stage 3	(52,352)	(45,663)
	<u>100,083,488</u>	<u>101,247,939</u>
Gross trade bills and other eligible bills, included within gross loans and advances to customers	1,047,303	430,587
Less: credit impairment allowances		
– Stage 1	(1,520)	(234)
– Stage 2	(129)	(47)
	<u>1,045,654</u>	<u>430,306</u>

The Group accepted listed securities at fair value of HK\$3,163,521,000 as at 30 June 2021 (31 December 2020: HK\$3,347,508,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

(a) Loans and advances (excluding trade bills and other eligible bills) 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 Hong Kong Monetary Authority.

	30 June 2021 (unaudited)		31 December 2020 (audited)	
	Balance	% covered by collateral	Balance	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,705,440	63%	3,307,366	61%
– Property investment	5,541,282	92%	6,340,395	93%
– Financial concerns	2,145,529	7%	2,157,314	7%
– Stockbrokers	1,694,389	65%	817,691	74%
– Wholesale and retail trade	1,474,620	50%	1,696,627	48%
– Manufacturing	1,044,280	65%	1,113,524	63%
– Transport and transport equipment	614,939	58%	638,595	59%
– Recreational activities	2,396,227	17%	2,442,598	18%
– Information technology – telecommunication	4,932	100%	4,884	100%
– Hotels, boarding houses and catering	2,032,686	90%	2,089,880	91%
– Others	13,184,339	60%	13,422,363	58%
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	67,352	100%	73,510	100%
– Loans for the purchase of other residential properties	3,949,984	100%	4,199,453	100%
– Credit card advances	158,513	0%	166,720	0%
– Others	7,431,168	96%	7,151,373	98%
Trade financing	8,337,361	58%	7,941,981	61%
Loans for use outside Hong Kong	46,777,694	85%	47,743,633	85%
	99,560,735	76%	101,307,907	77%

As at 30 June 2021 and 31 December 2020, the Bank did not have exposures to individual industry sector constituting 10% or more of the Group's total amount of loans and advances.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

(b) Loans and advances (excluding trade bills and other eligible bills) by geographical area

The information concerning the breakdown of the gross amount of loans and advances to customers (excluding trade bills and other eligible bills) 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 2021 (unaudited)	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 credit impairment allowances	Total Stage 1 and Stage 2 credit impairment allowances
Hong Kong	62,362,774	80,392	31,383	16,170	393,302
Mainland China	6,464,515	72,333	72,333	36,173	16,747
United States	26,728,723	29,218	7,486	–	39,260
Others	4,004,723	11	11	9	21,240
	<u>99,560,735</u>	<u>181,954</u>	<u>111,213</u>	<u>52,352</u>	<u>470,549</u>
% of total loans and advances to customers		<u>0.18</u>			
Fair value of collateral		<u>368,532</u>			

As at 31 December 2020 (audited)	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 credit impairment allowances	Total Stage 1 and Stage 2 credit impairment allowances
Hong Kong	62,915,349	71,610	24,287	15,749	375,327
Mainland China	7,155,458	71,751	47,907	29,914	14,799
United States	26,557,550	22,066	–	–	39,718
Others	4,679,550	2,909	2,804	–	14,767
	<u>101,307,907</u>	<u>168,336</u>	<u>74,998</u>	<u>45,663</u>	<u>444,611</u>
% of total loans and advances to customers		<u>0.17</u>			
Fair value of collateral		<u>392,915</u>			

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

(c) Loans and advances (excluding trade bills and other eligible bills) overdue for more than 3 months

	30 June 2021 (unaudited)		31 December 2020 (audited)	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Balances which have been overdue for:				
– 6 months or less but over 3 months	37,137	0.04	6,086	0.01
– 1 year or less but over 6 months	9,368	–	5,507	–
– over 1 year	<u>64,708</u>	<u>0.07</u>	<u>63,405</u>	<u>0.06</u>
	<u>111,213</u>	<u>0.11</u>	<u>74,998</u>	<u>0.07</u>
Current market value of collateral	<u>194,970</u>		<u>160,761</u>	
Covered portion by collateral	<u>96,197</u>		<u>61,945</u>	
Uncovered portion by collateral	<u>15,016</u>		<u>13,053</u>	
Credit impairment allowances	<u>51,468</u>		<u>37,520</u>	

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

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

	30 June 2021 (unaudited)		31 December 2020 (audited)	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	<u>30,515</u>	<u>0.03</u>	<u>30,760</u>	<u>0.03</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Derivative financial instruments

As at 30 June 2021 (unaudited)	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	158,326,303	329,418	(238,743)
Interest rate contracts	140,000	383	(383)
Equity contracts	–	–	–
Total recognised derivative assets/(liabilities)		<u>329,801</u>	<u>(239,126)</u>

As at 31 December 2020 (audited)	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	138,532,505	841,615	(923,745)
Interest rate contracts	140,000	531	(531)
Equity contracts	13,217	–	(393)
Total recognised derivative assets/(liabilities)		<u>842,146</u>	<u>(924,669)</u>

Credit risk weighted amount

	30 June 2021 (unaudited)	31 December 2020 (audited)
Derivatives held for trading	<u>1,732,935</u>	<u>1,564,575</u>

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 2021 are calculated in accordance with the standardised (counterparty credit risk) approach (31 December 2020: current exposure method) as stipulated in the Banking (Capital) Rules.

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Derivative financial instruments (Continued)

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 are entered into in order to take proprietary positions. Trading limits and price verification controls are key aspects of this activity.

18 Properties for sale

	30 June 2021 (unaudited)	31 December 2020 (audited)
Property development		
Leasehold land held for development for sale	381,188	381,188
Building development cost	276,853	210,230
	658,041	591,418

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2021, the net book amount of land and building incurred for this project were HK\$819,812,000 (31 December 2020: HK\$736,297,000), of which HK\$658,041,000 (31 December 2020: HK\$591,418,000) were classified as properties for sale while the remaining HK\$161,771,000 (31 December 2020: HK\$144,879,000) as bank premises under development (Note 19) in accordance with the redevelopment plan.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

19 Properties and equipment

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development		Right-of-use assets	Total
				Leasehold land	Development cost		
As at 1 January 2020							
Cost	1,391,652	1,075,785	888,175	96,278	16,716	691,488	4,160,094
Accumulated depreciation	(178,204)	(307,555)	(642,172)	(847)	–	(331,302)	(1,460,080)
Net book amount	<u>1,213,448</u>	<u>768,230</u>	<u>246,003</u>	<u>95,431</u>	<u>16,716</u>	<u>360,186</u>	<u>2,700,014</u>
Year ended 31 December 2020							
Opening net book amount	1,213,448	768,230	246,003	95,431	16,716	360,186	2,700,014
Additions	–	3,338	60,247	–	23,826	97,405	184,816
Transfers							
Cost	(130)	–	–	1,545	7,480	–	8,895
Accumulated depreciation	3	–	–	(9)	–	–	(6)
Disposals/write-off/expiry							
Cost	–	–	(20,517)	–	–	(98,334)	(118,851)
Accumulated depreciation	–	–	20,170	–	–	98,109	118,279
Depreciation charge	(17,432)	(24,905)	(71,107)	(110)	–	(123,254)	(236,808)
Exchange adjustments	–	321	161	–	–	335	817
Closing net book amount	<u>1,195,889</u>	<u>746,984</u>	<u>234,957</u>	<u>96,857</u>	<u>48,022</u>	<u>334,447</u>	<u>2,657,156</u>
As at 31 December 2020 (audited)							
Cost	1,391,522	1,079,650	929,474	97,823	48,022	692,639	4,239,130
Accumulated depreciation	(195,633)	(332,666)	(694,517)	(966)	–	(358,192)	(1,581,974)
Net book amount	<u>1,195,889</u>	<u>746,984</u>	<u>234,957</u>	<u>96,857</u>	<u>48,022</u>	<u>334,447</u>	<u>2,657,156</u>
Six months ended 30 June 2021							
Opening net book amount	1,195,889	746,984	234,957	96,857	48,022	334,447	2,657,156
Additions	–	1,925	33,719	–	16,948	22,076	74,668
Disposals/write-off/expiry							
Cost	–	–	(3,947)	–	–	(65,656)	(69,603)
Accumulated depreciation	–	–	3,942	–	–	38,619	42,561
Depreciation charge	(8,716)	(12,690)	(38,234)	(56)	–	(55,187)	(114,883)
Exchange adjustments	–	510	34	–	–	167	711
Closing net book amount	<u>1,187,173</u>	<u>736,729</u>	<u>230,471</u>	<u>96,801</u>	<u>64,970</u>	<u>274,466</u>	<u>2,590,610</u>
As at 30 June 2021 (unaudited)							
Cost	1,391,522	1,082,348	959,719	97,823	64,970	649,261	4,245,643
Accumulated depreciation	(204,349)	(345,619)	(729,248)	(1,022)	–	(374,795)	(1,655,033)
Net book amount	<u>1,187,173</u>	<u>736,729</u>	<u>230,471</u>	<u>96,801</u>	<u>64,970</u>	<u>274,466</u>	<u>2,590,610</u>

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2021, the net book amount of land and building incurred for this project were HK\$819,812,000 (31 December 2020: HK\$736,297,000), of which HK\$658,041,000 (31 December 2020: HK\$591,418,000) were classified as properties for sale (Note 18) while the remaining HK\$161,771,000 (31 December 2020: HK\$144,879,000) as bank premises under development in accordance with the redevelopment plan.

As at 30 June 2021, interests in freehold land outside Hong Kong amounted to HK\$34,869,000 (31 December 2020: HK\$34,552,000) were included as bank premises above.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

20 Investment properties

	Leasehold land	Buildings	Total
As at 1 January 2020			
Cost	725,305	332,354	1,057,659
Accumulated depreciation	<u>(10,405)</u>	<u>(30,106)</u>	<u>(40,511)</u>
Net book amount	<u>714,900</u>	<u>302,248</u>	<u>1,017,148</u>
Year ended 31 December 2020			
Opening net book amount	714,900	302,248	1,017,148
Additions	–	2,272	2,272
Depreciation charge	<u>(865)</u>	<u>(8,029)</u>	<u>(8,894)</u>
Closing net book amount	<u>714,035</u>	<u>296,491</u>	<u>1,010,526</u>
As at 31 December 2020 (audited)			
Cost	725,305	334,626	1,059,931
Accumulated depreciation	<u>(11,270)</u>	<u>(38,135)</u>	<u>(49,405)</u>
Net book amount	<u>714,035</u>	<u>296,491</u>	<u>1,010,526</u>
Six months ended 30 June 2021			
Opening net book amount	714,035	296,491	1,010,526
Additions	–	1,040	1,040
Depreciation charge	<u>(433)</u>	<u>(4,014)</u>	<u>(4,447)</u>
Closing net book amount	<u>713,602</u>	<u>293,517</u>	<u>1,007,119</u>
As at 30 June 2021 (unaudited)			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	<u>(11,703)</u>	<u>(42,149)</u>	<u>(53,852)</u>
Net book amount	<u>713,602</u>	<u>293,517</u>	<u>1,007,119</u>

As at 30 June 2021, the Group's investment properties were valued at HK\$2,547,500,000 (31 December 2020: HK\$2,967,000,000) by an independent firm of Jones Lang LaSalle Limited (31 December 2020: 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.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

20 Investment properties (Continued)

Operating lease commitments as a lessor

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

	30 June 2021 (unaudited)	31 December 2020 (audited)
Not later than 1 year	51,737	63,072
1 to 2 years	14,453	32,434
2 to 3 years	–	4,280
	<u>66,190</u>	<u>99,786</u>

The Group leases its investment properties 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.

21 Deposits from customers

	30 June 2021 (unaudited)	31 December 2020 (audited)
Demand deposits and current accounts	20,192,993	18,003,831
Savings deposits	54,500,695	51,696,337
Time, call and notice deposits	104,674,497	107,709,161
Deposits from Hong Kong Government Exchange Fund	388,235	387,610
	<u>179,756,420</u>	<u>177,796,939</u>

22 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with banks

Balances with banks and placements with 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. An insignificant portion of loans and advances to customers bears interest at fixed rate. The carrying amount at the reporting date approximates their fair value.

(iii) Investment securities at amortised cost

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 is classified under Level 1 (30 June 2021: HK\$1,385,426,000; 31 December 2020: HK\$344,486,000) in the fair value hierarchy. Please refer to Note 22(b) for the definition of fair value hierarchy.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(a) Financial instruments not measured at fair value (Continued)

(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 debts

The fair value of subordinated debts of HK\$4,479,013,000 (31 December 2020: HK\$4,496,447,000) 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, exchange-traded derivative contracts 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 and unlisted debt securities. Observable parameters that are used as input include market data such as interest rate 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.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

As at 30 June 2021 (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	84,792	1,932,039	–	2,016,831
Equity securities	247,065	–	8,722	255,787
Funds	–	–	–	–
Others	3	–	–	3
Derivative financial instruments				
Exchange rate contracts	–	329,418	–	329,418
Interest rate contracts	–	383	–	383
Investment securities at fair value through other comprehensive income				
Debt securities	35,432,204	38,538,134	2,874	73,973,212
Equity securities (Note)	4,342,084	–	65,352	4,407,436
Total Assets	40,106,148	40,799,974	76,948	80,983,070
Derivative financial instruments				
Exchange rate contracts	–	238,743	–	238,743
Interest rate contracts	–	383	–	383
Equity contracts	–	–	–	–
Total Liabilities	–	239,126	–	239,126
As at 31 December 2020 (audited)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	144,854	1,929,741	–	2,074,595
Equity securities	101,696	–	8,722	110,418
Funds	13,735	–	–	13,735
Others	3	–	–	3
Derivative financial instruments				
Exchange rate contracts	–	841,615	–	841,615
Interest rate contracts	–	531	–	531
Investment securities at fair value through other comprehensive income				
Debt securities	40,641,517	30,867,295	2,874	71,511,686
Equity securities	4,112,883	–	64,474	4,177,357
Total Assets	45,014,688	33,639,182	76,070	78,729,940
Derivative financial instruments				
Exchange rate contracts	–	923,745	–	923,745
Interest rate contracts	–	531	–	531
Equity contracts	393	–	–	393
Total Liabilities	393	924,276	–	924,669

Note: As at 30 June 2021, equity securities designated at fair value through other comprehensive income amounting to HK\$4,407,436,000 (31 December 2020: HK\$4,177,357,000) were for long term investment purpose, of which HK\$4,198,871,000 (31 December 2020: HK\$3,983,598,000) were the fair value of the Bank's investment in Bank of Shanghai, China.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

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

Level 2 fair values of unlisted debt securities are determined based on quotes from brokers. The most significant input is discount rate of the instrument.

Level 2 fair values of foreign exchange rate contracts and interest rate contracts are determined using the appropriate foreign exchange rates, interest rate yield curves and where applicable, the implied option volatility at the reporting date, with the expected cash-flow 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 affected by 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\$3,659,000 (31 December 2020: HK\$995,000) or decreased by HK\$3,279,000 (31 December 2020: HK\$794,000) and profit or loss would be increased/decreased by HK\$436,000 (31 December 2020: HK\$436,000) respectively.

The following table presents the changes in level 3 instruments for the period ended 30 June 2021 and year ended 31 December 2020 respectively.

	Financial assets at fair value through profit or loss		Investment securities at fair value through other comprehensive income		
	Equity securities	Total	Equity securities	Debt securities	Total
As at 1 January 2020	7,194	7,194	61,118	2,874	63,992
Total gains					
– Profit	1,528	1,528	–	–	–
– Other comprehensive income	–	–	695	–	695
Exchange adjustments	–	–	2,661	–	2,661
As at 31 December 2020 (audited)	<u>8,722</u>	<u>8,722</u>	<u>64,474</u>	<u>2,874</u>	<u>67,348</u>
As at 1 January 2021	8,722	8,722	64,474	2,874	67,348
Total gains					
– Profit	–	–	–	–	–
– Other comprehensive income	–	–	572	–	572
Exchange adjustments	–	–	306	–	306
As at 30 June 2021 (unaudited)	<u>8,722</u>	<u>8,722</u>	<u>65,352</u>	<u>2,874</u>	<u>68,226</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Subordinated debts

	30 June 2021 (unaudited)	31 December 2020 (audited)
US\$250 million fixed rate subordinated notes issued due 2027 at amortised cost (Note a)	1,931,025	1,927,368
US\$300 million fixed rate subordinated notes issued due 2029 at amortised cost (Note b)	2,318,768	2,314,112
	<u>4,249,793</u>	<u>4,241,480</u>

Note a: This represents US\$250,000,000 Basel III compliant 10-year subordinated fixed rate notes qualifying as Tier 2 capital of the Bank in accordance with the Banking (Capital) Rules ("BCR"), which are listed on the Hong Kong Stock Exchange. The notes will mature on 29 November 2027 with an optional redemption date falling on 29 November 2022. Interest at 3.75% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will be reset and the notes will bear interest at the prevailing 5-year U.S. Treasury Rate plus 170.5 basis points. The Bank may, subject to receiving the prior approval of the Hong Kong Monetary Authority ("HKMA"), redeem the notes at the option of the Bank in whole but not in part, at par either on the optional redemption date or for tax or regulatory reasons at any time prior to maturity of the notes.

Note b: This represents US\$300,000,000 Basel III compliant 10-year subordinated fixed rate notes qualifying as Tier 2 capital of the Bank in accordance with the BCR, which are listed on the Hong Kong Stock Exchange. The notes will mature on 17 January 2029 with an optional redemption date falling on 17 January 2024. Interest at 5.00% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will be reset and the notes will bear interest at the prevailing 5-year U.S. Treasury Rate plus 250 basis points. The Bank may, subject to receiving the prior approval of the HKMA, redeem the notes at the option of the Bank in whole but not in part, at par either on the optional redemption date or for tax or regulatory reasons at any time prior to maturity of the notes.

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	Credit impairment allowances	Accelerated tax depreciation	Fair value gains on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2020	14,945	(3,941)	(3)	17,114	28,115
Credited/(charged) to the statement of profit or loss	10,976	(6,814)	–	(4,946)	(784)
Exchange adjustments	913	(510)	–	(69)	334
Reclassified from deferred income tax liabilities	2	1	–	–	3
As at 31 December 2020 (audited)	26,836	(11,264)	(3)	12,099	27,668
Credited/(charged) to the statement of profit or loss	2,763	(1,068)	–	(8,714)	(7,019)
Exchange adjustments	407	(191)	–	16	232
As at 30 June 2021 (unaudited)	<u>30,006</u>	<u>(12,523)</u>	<u>(3)</u>	<u>3,401</u>	<u>20,881</u>

Deferred income tax liabilities	Credit Impairment allowances	Accelerated tax depreciation	Fair value (gains)/losses on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2020	56,422	(45,183)	(44,253)	14,113	(18,901)
Credited/(charged) to the statement of profit or loss	10,881	(6,013)	–	(2,980)	1,888
Charged to equity	–	–	(92,855)	–	(92,855)
Reclassified to deferred income tax assets	(2)	(1)	–	–	(3)
As at 31 December 2020 (audited)	67,301	(51,197)	(137,108)	11,133	(109,871)
Credited/(charged) to the statement of profit or loss	5,950	(2,292)	–	–	3,658
Credited to equity	–	–	37,871	–	37,871
As at 30 June 2021 (unaudited)	<u>73,251</u>	<u>(53,489)</u>	<u>(99,237)</u>	<u>11,133</u>	<u>(68,342)</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

25 Reserves attributable to equity holders

	Regulatory reserve (Note)	Investment revaluation reserve	General and other reserves	Total
As at 1 January 2020	935,294	3,264,175	7,179,448	11,378,917
Investment securities at fair value through other comprehensive income	–	(55,419)	–	(55,419)
Currency translation difference arising from overseas operations	4,977	–	91,246	96,223
Share of reserves of associates and joint venture	–	6,170	173	6,343
	<u>940,271</u>	<u>3,214,926</u>	<u>7,270,867</u>	<u>11,426,064</u>
As at 31 December 2020 (audited)	<u>940,271</u>	<u>3,214,926</u>	<u>7,270,867</u>	<u>11,426,064</u>
As at 1 January 2021	940,271	3,214,926	7,270,867	11,426,064
Investment securities at fair value through other comprehensive income	–	30,363	–	30,363
Currency translation difference arising from overseas operations	605	–	8,709	9,314
Share of reserves of associates and joint venture	–	3,869	78	3,947
	<u>940,876</u>	<u>3,249,158</u>	<u>7,279,654</u>	<u>11,469,688</u>
As at 30 June 2021 (unaudited)	<u>940,876</u>	<u>3,249,158</u>	<u>7,279,654</u>	<u>11,469,688</u>

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

26 Contingent liabilities and commitments

(a) Credit commitments

The contract and credit risk weighted amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

Contract amounts	30 June 2021 (unaudited)	31 December 2020 (audited)
Direct credit substitutes	2,414,867	2,319,494
Trade-related contingencies	2,680,728	2,238,682
Other commitments with an original maturity of:		
– under 1 year	600,223	1,857,689
– 1 year and over	7,750,043	8,421,031
– unconditionally cancellable	33,063,886	36,379,054
	46,509,747	51,215,950
Credit risk weighted amounts	6,028,755	6,222,945

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.

(b) Capital commitments

Capital expenditure for the acquisition of properties and equipment outstanding as at the reporting date but not yet incurred is as follows:

	30 June 2021 (unaudited)	31 December 2020 (audited)
Contracted but not provided for	439,134	488,368

(c) 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.

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2021

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT
27 Maturity analysis

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

As at 30 June 2021 (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	13,361,924	19,722,635	-	-	-	-	-	33,084,559
Placements with banks	-	-	5,086,817	4,263,472	-	-	-	9,350,289
Loans and advances to customers	4,845,628	9,127,410	9,838,077	28,442,351	31,717,864	15,960,162	151,996	100,083,488
Financial assets at fair value through profit or loss	-	-	38,835	479	105,408	1,872,109	255,790	2,272,621
Derivative financial instruments	-	103,892	82,481	83,838	59,590	-	-	329,801
Investment securities at fair value through other comprehensive income	-	2,499,947	6,380,063	21,099,339	38,615,590	5,375,399	4,410,310	78,380,648
Investment securities at amortised cost	-	-	124,518	204,448	1,058,678	-	-	1,387,644
Properties for sale	-	-	-	-	658,041	-	-	658,041
Investments in associates and joint venture	-	-	-	-	-	-	497,334	497,334
Properties and equipment	-	8,884	17,769	67,205	114,868	65,739	2,316,145	2,590,610
Investment properties	-	-	-	-	-	-	1,007,119	1,007,119
Deferred income tax assets	-	-	-	-	-	-	20,881	20,881
Other assets	260,016	880,950	73,465	270,300	344,937	55,646	4,172	1,889,486
Total assets	18,467,568	32,343,718	21,642,025	54,431,432	72,674,976	23,329,055	8,663,747	231,552,521
Liabilities								
Deposits and balances from banks	853,331	3,609,455	4,911,765	408,617	-	-	-	9,783,168
Deposits from customers	76,005,492	34,421,296	44,936,827	24,107,968	284,837	-	-	179,756,420
Derivative financial instruments	-	71,952	58,870	48,714	59,590	-	-	239,126
Subordinated debts	-	-	-	-	-	4,249,793	-	4,249,793
Other liabilities	678,530	2,018,651	212,614	477,311	132,134	65,636	-	3,584,876
Current income tax liabilities	-	-	-	186,541	-	-	-	186,541
Deferred income tax liabilities	-	-	-	-	-	-	68,342	68,342
Total liabilities	77,537,353	40,121,354	50,120,076	25,229,151	476,561	4,315,429	68,342	197,868,266
Net liquidity gap	(59,069,785)	(7,777,636)	(28,478,051)	29,202,281	72,198,415	19,013,626	8,595,405	33,684,255
Of which lease liabilities included in:								
Other liabilities	-	10,856	18,514	71,033	126,103	65,636	-	292,142

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

27 Maturity analysis (Continued)

As at 31 December 2020 (audited)	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	11,558,058	18,437,196	-	-	-	-	-	29,995,254
Placements with banks	-	-	4,561,410	4,672,687	-	-	-	9,234,097
Loans and advances to customers	5,257,392	6,469,279	9,334,628	28,433,906	34,579,492	17,039,591	133,651	101,247,939
Financial assets at fair value through profit or loss	-	14,336	-	38,740	168,479	1,853,040	124,156	2,198,751
Derivative financial instruments	-	55,703	145,140	570,418	70,885	-	-	842,146
Investment securities at fair value through other comprehensive income	-	8,205,014	6,542,749	22,764,819	29,091,129	4,905,101	4,180,231	75,689,043
Investment securities at amortised cost	-	38,760	62,324	243,586	-	-	-	344,670
Properties for sale	-	-	-	-	591,418	-	-	591,418
Investments in associates and joint venture	-	-	-	-	-	-	443,480	443,480
Properties and equipment	-	10,102	19,628	80,803	154,158	69,756	2,322,709	2,657,156
Investment properties	-	-	-	-	-	-	1,010,526	1,010,526
Deferred income tax assets	-	-	-	-	-	-	27,668	27,668
Other assets	389,854	1,294,776	83,188	269,300	345,918	62,776	4,188	2,450,000
Total assets	17,205,304	34,525,166	20,749,067	57,074,259	65,001,479	23,930,264	8,246,609	226,732,148
Liabilities								
Deposits and balances from banks	1,321,983	3,594,486	2,392,853	531,012	-	-	-	7,840,334
Deposits from customers	70,545,414	34,429,328	48,208,921	24,426,259	187,017	-	-	177,796,939
Derivative financial instruments	-	85,120	168,007	600,657	70,885	-	-	924,669
Subordinated debts	-	-	-	-	-	4,241,480	-	4,241,480
Other liabilities	516,898	1,705,154	368,077	372,273	173,027	70,329	511	3,206,269
Current income tax liabilities	-	97,820	19,967	-	-	-	-	117,787
Deferred income tax liabilities	-	-	-	-	-	-	109,871	109,871
Total liabilities	72,384,295	39,911,908	51,157,825	25,930,201	430,929	4,311,809	110,382	194,237,349
Net liquidity gap	(55,178,991)	(5,386,742)	(30,408,758)	31,144,058	64,570,550	19,618,455	8,136,227	32,494,799
Of which lease liabilities included in:								
Other liabilities	-	9,803	19,808	84,371	170,069	70,329	-	354,380

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Related party transactions

A number of banking transactions were entered into with related parties by the Group in the normal course of business and at arm's length basis. 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 2021 (unaudited)	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note a)	Other related parties (Note b)	Total
Aggregate amounts outstanding at the period end					
– Loans and advances	–	–	31,470	–	31,470
– Cash and balances with banks	9,901	–	–	98,277	108,178
– Deposits and balances from banks and customers	240,217	1,435,758	1,262,853	3,850,306	6,789,134
– Investment securities at fair value through other comprehensive income	143,213	–	–	78,217	221,430
– Stage 1 and Stage 2 credit impairment allowances	–	3	44	23	70
– Contingent liabilities and other commitments	–	2,000	25,209	–	27,209
Six months ended 30 June 2021 (unaudited)					
Interest income received from related parties	19	–	549	864	1,432
Interest expenses paid to related parties	923	644	2,897	6,789	11,253
Net fee and commission income/(expense) from/(to) related parties	(242)	29,738	–	(73)	29,423
Net other operating income/(expense) from/(to) related parties	16	(2,557)	(150)	(2,763)	(5,454)
	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note a)	Other related parties (Note b)	Total
As at 31 December 2020 (audited)					
Aggregate amounts outstanding at the year end					
– Loans and advances	–	–	297,828	–	297,828
– Cash and balances with banks	10,003	–	–	134,825	144,828
– Deposits and balances from banks and customers	457,155	385,642	1,353,581	1,944,110	4,140,488
– Investment securities at fair value through other comprehensive income	129,285	–	–	79,351	208,636
– Stage 1 and Stage 2 credit impairment allowances	–	2	515	18	535
– Contingent liabilities and other commitments	–	2,000	237,608	–	239,608
Six months ended 30 June 2020 (unaudited)					
Interest income received from related parties	51	–	2,528	1,894	4,473
Interest expenses paid to related parties	2,966	2,915	6,436	20,961	33,278
Net fee and commission income/(expense) from/(to) related parties	(2,696)	28,660	–	(75)	25,889
Net other operating income/(expense) from/(to) related parties	17	(2,059)	(150)	(3,242)	(5,434)

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

Note b: Include other shareholders of the Group.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Related party transactions (Continued)

Key management personnel compensation

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

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Salaries and other short-term employee benefits	<u>32,411</u>	<u>35,064</u>

29 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, 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.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 Segment reporting (Continued)

(a) By operating segment (Continued)

	Six months ended 30 June 2021 (unaudited)				
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	1,678,098	27,275	151,134	8,019	1,864,526
Non-interest income	141,977	42,452	241,159	339,977	765,565
Operating income	1,820,075	69,727	392,293	347,996	2,630,091
Operating expenses	(463,176)	(45,382)	(57,151)	(291,517)	(857,226)
Operating profit before credit impairment losses	1,356,899	24,345	335,142	56,479	1,772,865
Credit impairment losses	(30,833)	(6,197)	(7,131)	(60)	(44,221)
Operating profit after credit impairment losses	1,326,066	18,148	328,011	56,419	1,728,644
Share of net profits of associates and joint venture	–	–	–	54,142	54,142
Profit before income tax (after taking into account internal fund transfers and cost allocation)	1,326,066	18,148	328,011	110,561	1,782,786
Income tax expense	295,472	1,739	53,979	(15,114)	336,076
Depreciation expenses	53,262	5,130	6,465	54,473	119,330
As at 30 June 2021 (unaudited):					
Total assets	99,856,040	4,435,026	120,975,700	6,285,755	231,552,521
Total liabilities	180,559,879	72,500	15,758,796	1,477,091	197,868,266
	Six months ended 30 June 2020 (unaudited)				
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	1,323,352	29,295	404,444	46,692	1,803,783
Non-interest income	149,923	41,929	216,308	292,423	700,583
Operating income	1,473,275	71,224	620,752	339,115	2,504,366
Operating expenses	(436,545)	(43,114)	(51,876)	(267,175)	(798,710)
Operating profit before credit impairment losses	1,036,730	28,110	568,876	71,940	1,705,656
Credit impairment losses	(82,910)	(2,864)	(7,708)	(105)	(93,587)
Operating profit after credit impairment losses	953,820	25,246	561,168	71,835	1,612,069
Share of net losses of associates and joint venture	–	–	–	(988)	(988)
Profit before income tax (after taking into account internal fund transfers and cost allocation)	953,820	25,246	561,168	70,847	1,611,081
Income tax expense	234,451	2,970	84,201	10,599	332,221
Depreciation expenses	45,327	4,928	4,365	67,010	121,630
As at 31 December 2020 (audited):					
Total assets	101,947,517	3,415,378	114,868,008	6,501,245	226,732,148
Total liabilities	178,700,531	62,743	13,566,895	1,907,180	194,237,349

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 Segment reporting (Continued)

(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 2021 (unaudited)			Six months ended 30 June 2021 (unaudited)		
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	196,698,809	181,712,458	40,926,517	2,038,092	1,244,412	73,381
United States	29,384,416	12,408,456	5,298,098	547,196	504,751	1,860
United Kingdom	5,469,296	3,747,352	285,132	44,803	33,623	467
Total	231,552,521	197,868,266	46,509,747	2,630,091	1,782,786	75,708

	As at 31 December 2020 (audited)			Six months ended 30 June 2020 (unaudited)		
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	191,902,931	181,056,433	44,027,519	1,962,044	1,154,934	93,749
United States	29,344,970	10,593,085	6,721,216	502,191	430,249	958
United Kingdom	5,484,247	2,587,831	467,215	40,131	25,898	166
Total	226,732,148	194,237,349	51,215,950	2,504,366	1,611,081	94,873

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

30 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.

As at 30 June 2021 (unaudited)	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	18,633,000	430,000	1,802,000	2,495,000	23,360,000
Offshore centres	7,222,000	81,000	3,531,000	29,232,000	40,066,000
– of which Hong Kong	5,822,000	81,000	2,808,000	26,888,000	35,599,000
Developing Asia-Pacific	47,048,000	113,000	644,000	10,439,000	58,244,000
– of which China	29,798,000	113,000	644,000	8,242,000	38,797,000
– of which Chinese Taipei	10,740,000	–	–	2,086,000	12,826,000

As at 31 December 2020 (audited)	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	18,392,000	5,464,000	1,814,000	1,234,000	26,904,000
Offshore centres	5,720,000	–	3,067,000	29,230,000	38,017,000
– of which Hong Kong	3,882,000	–	2,237,000	25,644,000	31,763,000
Developing Asia-Pacific	40,950,000	117,000	1,104,000	9,916,000	52,087,000
– of which China	29,498,000	117,000	1,104,000	7,934,000	38,653,000
– of which Chinese Taipei	9,153,000	–	–	1,938,000	11,091,000

REGULATORY DISCLOSURES (UNAUDITED)

The following disclosures are prepared under regulatory scope of consolidation to comply with the Banking (Disclosure) Rules and are not audited.

1 Key prudential ratios

		30 June 2021	31 March 2021	31 December 2020	30 September 2020	30 June 2020
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	31,100,458	30,674,409	30,087,958	29,139,337	28,092,913
2	Tier 1	31,100,458	30,674,409	30,087,958	29,139,337	28,092,913
3	Total capital	36,797,943	36,359,892	35,745,052	34,767,565	33,711,395
Risk Weighted Amounts (RWA)						
4	Total RWA	178,790,004	177,537,392	177,769,676	180,046,426	173,220,973
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	17.4%	17.3%	16.9%	16.2%	16.2%
6	Tier 1 ratio (%)	17.4%	17.3%	16.9%	16.2%	16.2%
7	Total capital ratio (%)	20.6%	20.5%	20.1%	19.3%	19.5%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.6%	0.6%	0.6%	0.6%	0.6%
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%	3.1%	3.1%	3.1%
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.4%	11.3%	10.9%	10.2%	10.2%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	241,395,524	240,416,220	237,491,724	243,295,369	236,694,876
14	LR (%)	12.9%	12.8%	12.7%	12.0%	11.9%
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 (%)	61.1%	58.7%	56.5%	55.8%	56.8%
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 (%)	230.2%	225.7%	213.9%	210.1%	205.9%

Footnote:

N/A Not applicable

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 30 June 2021 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratio represents the consolidated ratio 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 Westpoint Investments Limited, Silver Wisdom Westpoint 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 2021.

Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to Composition of Regulatory Capital
Assets			
Cash and balances with banks	33,084,559	33,083,156	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(1,491)	(1)
Placements with banks	9,350,289	9,350,289	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(431)	(2)
Loans and advances to customers	100,083,488	100,083,488	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(472,198)	(3)
Financial assets at fair value through profit or loss	2,272,621	2,239,041	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		6,757	(4)
Derivative financial instruments	329,801	329,801	
Investment securities at fair value through other comprehensive income	78,380,648	78,380,648	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		1,074,848	(5)
Investment securities at amortised cost	1,387,644	1,387,644	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(7)	(6)
Properties for sale	658,041	658,041	
Investments in associates and joint venture	497,334	188,000	
Investments in and amounts due from subsidiaries	–	225,526	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(12,426)	(7)
Properties and equipment	2,590,610	2,584,523	
Investment properties	1,007,119	1,036,479	
Deferred income tax assets	20,881	20,867	(8)
Other assets	1,889,486	1,803,410	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(1,738)	(9)
Total assets	231,552,521	231,370,913	

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Reconciliation of regulatory capital to balance sheet (Continued)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to Composition of Regulatory Capital
Liabilities			
Deposits and balances from banks	9,783,168	9,783,168	
Deposits from customers	179,756,420	179,756,420	
Derivative financial instruments	239,126	239,126	
Amounts due to subsidiaries	–	522,076	
Subordinated debts	4,249,793	4,249,793	(10)
Other liabilities	3,584,876	3,425,343	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		18,525	(11)
Current income tax liabilities	186,541	184,972	
Deferred income tax liabilities	68,342	66,209	
Total liabilities	197,868,266	198,227,107	
Equity			
Share capital	2,000,000	2,000,000	(12)
Retained earnings	20,120,170	19,700,254	(13)
Reserves	11,469,688	11,443,552	
<i>of which: accumulated other comprehensive income/(loss), other than regulatory reserve</i>		10,502,676	(14)
<i>regulatory reserve</i>		940,876	(15)
Non-controlling interests in equity	94,397	–	
Total equity	33,684,255	33,143,806	
Total equity and liabilities	231,552,521	231,370,913	

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital

The Bank has already applied full capital deductions under the BCR. The Composition of Regulatory Capital as at 30 June 2021 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	(12)
2	Retained earnings	19,700,254	(13)
3	Disclosed reserves	11,443,552	(14) + (15)
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	33,143,806	
CET1 capital: regulatory deductions			
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	–	
10	Deferred tax assets (net of associated deferred tax liabilities)	20,867	(8)
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 LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	1,081,605	(4) + (5)
19	Significant LAC 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	940,876	
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	940,876	(15)
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	–	

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	Total regulatory deductions to CET1 capital	2,043,348	
29	CET1 capital	31,100,458	
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 LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
40	Significant LAC 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)	31,100,458	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	4,249,793	(10)
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	1,447,692	(11) + (15) – (1) – (2) – (3) – (6) – (7) – (9)
51	Tier 2 capital before regulatory deductions	5,697,485	

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	–	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	–	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only)	–	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
55a	Significant LAC investments in non-capital LAC liabilities of 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	–	
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	–	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	–	
57	Total regulatory adjustments to Tier 2 capital	–	
58	Tier 2 capital	5,697,485	
59	Total regulatory capital (TC = Tier 1 + Tier 2)	36,797,943	
60	Total risk weighted assets	178,790,004	
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	17.4%	
62	Tier 1 capital ratio	17.4%	
63	Total capital ratio	20.6%	
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	2.5%	
66	of which: bank specific countercyclical capital buffer requirement	0.6%	
67	of which: higher loss absorbency requirement	0.0%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	11.4%	
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	

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	3,218,207	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	573,052	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	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)	1,447,692	
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	1,981,779	
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)	–	

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (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:

Row No.	Description	Hong Kong basis	Basel III basis
	Deferred tax assets (“DTA”) (net of associated deferred tax liabilities)	20,867	–
10	<p><u>Explanation</u></p> <p>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.</p>		
<p>Remarks:</p> <p>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.</p>			

Footnote:

CET1 Common Equity Tier 1

AT1 Additional Tier 1

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments

The main features of regulatory capital instruments as at 30 June 2021 are shown below. Full terms and conditions are published in the Bank's website of <http://www.shacombank.com.hk> and are accessible at the following direct link: <http://www.shacombank.com.hk/eng/about/regulatory/20210630.jsp>

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
1	Issuer	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	ISIN: XS1720518478	ISIN: XS1892105823
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.	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	N/A
5	Post-transitional Basel III rules+	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo*/group/solo and group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Other Tier 2 instruments	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK\$2,000 million	HK\$1,931 million	HK\$2,319 million
9	Par value of instrument	N/A	US\$250 million	US\$300 million
10	Accounting classification	Shareholders' equity	Liability-amortised cost	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	17 January 2019
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	29 November 2027	17 January 2029
14	Issuer call subject to prior supervisory approval	No	Yes	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 HKMA.	One-off call date: 17 January 2024. 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 HKMA.
16	Subsequent call dates, if applicable	N/A	N/A	N/A

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
	Coupons/dividends			
17	Fixed or floating dividend/ coupon	Floating	Fixed	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.	5.00% p.a. Fixed until 17 January 2024 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	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	No	Yes	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.	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	May be in part or in full
33	If write-down, permanent or temporary	N/A	Permanent	Permanent

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
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	<p>The rights of the holders will, in the event of the winding up of the Bank, rank</p> <p>(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;</p> <p>(ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and</p> <p>(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.</p>	<p>The rights of the holders will, in the event of the winding up of the Bank, rank</p> <p>(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;</p> <p>(ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and</p> <p>(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.</p>
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	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

REGULATORY DISCLOSURES (UNAUDITED)

3 Overview of RWA

The table below shows the breakdowns of RWA for various risks as at 30 June 2021 and 31 March 2021 and the minimum capital requirements as at 30 June 2021 which are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		30 June 2021	31 March 2021	30 June 2021
1	Credit risk for non-securitization exposures	155,376,738	153,546,831	12,430,139
2	Of which STC approach	155,376,738	153,546,831	12,430,139
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	1,732,935	1,904,030	138,635
7	Of which SA-CCR approach	1,732,935	–	138,635
7a	Of which CEM	–	1,904,030	–
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	414,388	461,625	33,151
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 (including IAA)	–	–	–
19	Of which SEC-SA	–	–	–
19a	Of which SEC-FBA	–	–	–
20	Market risk	10,250,463	10,351,525	820,037
21	Of which STM approach	10,250,463	10,351,525	820,037
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	9,582,850	9,664,638	766,628
24a	Sovereign concentration risk	–	–	–
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,432,630	1,608,743	114,610
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	178,790,004	177,537,392	14,303,200

REGULATORY DISCLOSURES (UNAUDITED)

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 Hong Kong Monetary Authority 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 Hong Kong Monetary Authority 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 2021.

	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	1.0%	81,193,874		
	Sum		81,193,874		
	Total		126,717,944	0.6%	1,146,044

REGULATORY DISCLOSURES (UNAUDITED)

5 Leverage ratio

The leverage ratio ("LR") represents the consolidated ratio 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 2021.

	Item	Value under the LR framework
1	Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	232,111,689
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(181,608)
2a	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
3a	Adjustments for eligible cash pooling transactions	–
4	Adjustments for derivative contracts	1,815,491
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)	10,252,468
6a	Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure	(559,168)
7	Other adjustments	(2,043,348)
8	Leverage ratio exposure measure	241,395,524

The leverage ratios as at 30 June 2021 and 31 March 2021 are shown below:

		30 June 2021	31 March 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	231,600,280	228,099,231
2	Less: Asset amounts deducted in determining Tier 1 capital	(2,043,348)	(2,286,588)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	229,556,932	225,812,643
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)	168,719	756,758
5	Add-on amounts for PFE associated with all derivative contracts	1,976,573	2,633,441
6	Gross-up for collateral provided in respect of derivative contracts 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-related derivative contracts	–	–
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	–	–
11	Total exposures arising from derivative contracts	2,145,292	3,390,199

REGULATORY DISCLOSURES (UNAUDITED)

5 Leverage ratio (Continued)

		30 June 2021	31 March 2021
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	–	–
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	46,509,747	51,395,252
18	Less: Adjustments for conversion to credit equivalent amounts	(36,257,279)	(39,639,645)
19	Off-balance sheet items	10,252,468	11,755,607
Capital and total exposures			
20	Tier 1 capital	31,100,458	30,674,409
20a	Total exposures before adjustments for specific and collective provisions	241,954,692	240,958,449
20b	Adjustments for specific and collective provisions	(559,168)	(542,229)
21	Total exposures after adjustments for specific and collective provisions	241,395,524	240,416,220
Leverage ratio			
22	Leverage ratio	12.9%	12.8%

Footnote:

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

REGULATORY DISCLOSURES (UNAUDITED)

6 Credit risk

(a) Credit quality of exposures as at 30 June 2021

	Gross carrying amounts of	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values
					Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	111,213	100,496,825	524,550	52,352	472,198	–	100,083,488
2	Debt securities	–	75,360,863	7	–	7	–	75,360,856
3	Off-balance sheet exposures	–	13,445,861	6,918	–	6,918	–	13,438,943
4	Total	111,213	189,303,549	531,475	52,352	479,123	–	188,883,287

(b) Changes in defaulted loans and debt securities

	Amount	
1	Defaulted loans and debt securities as at end December 2020	74,998
2	Loans and debt securities that have defaulted since the last reporting period	42,188
3	Returned to non-defaulted status	–
4	Amounts written off	(792)
5	Other changes	(5,181)
6	Defaulted loans and debt securities as at end June 2021	111,213

(c) Overview of recognised credit risk mitigation as at 30 June 2021

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts	
1	Loans	98,758,936	1,324,552	1,105,123	219,429	–
2	Debt securities	75,360,856	–	–	–	–
3	Total	174,119,792	1,324,552	1,105,123	219,429	–
4	Of which defaulted	3,017	87,082	87,082	–	–

REGULATORY DISCLOSURES (UNAUDITED)

6 Credit risk (Continued)

(d) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach as at 30 June 2021

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	11,345,278	–	11,357,955	–	44,458	–
2 PSE exposures	3,615,430	250,000	3,602,753	125,000	745,551	20%
2a Of which: domestic PSEs	3,615,430	250,000	3,602,753	125,000	745,551	20%
2b Of which: foreign PSEs	–	–	–	–	–	–
3 Multilateral development bank exposures	1,233,993	–	1,233,993	–	–	–
4 Bank exposures	71,718,519	263,193	71,935,221	64,426	27,814,806	39%
5 Securities firm exposures	1,279,399	1,918,653	1,279,399	–	639,700	50%
6 Corporate exposures	108,797,620	32,629,737	107,945,265	5,460,311	103,067,572	91%
7 CIS exposures	–	–	–	–	–	–
8 Cash items	842,676	–	1,860,717	–	143,021	8%
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	3,884,570	2,386,001	3,801,408	128,126	2,947,151	75%
11 Residential mortgage loans	8,991,061	2,151,779	8,988,609	1,067,364	4,871,686	48%
12 Other exposures which are not past due exposures	15,207,243	6,910,384	14,910,469	100,853	15,011,323	100%
13 Past due exposures	90,099	–	90,099	–	91,470	102%
14 Significant exposures to commercial entities	–	–	–	–	–	–
15 Total	227,005,888	46,509,747	227,005,888	6,946,080	155,376,738	66%

REGULATORY DISCLOSURES (UNAUDITED)

6 Credit risk (Continued)

(e) Credit risk exposures by asset classes and by risk weights – for STC approach as at 30 June 2021

Exposure class		Risk Weight										Total credit risk exposures amount (post CCF and post CRM)
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
1	Sovereign exposures	11,135,665	-	222,290	-	-	-	-	-	-	-	11,357,955
2	PSE exposures	-	-	3,727,753	-	-	-	-	-	-	-	3,727,753
2a	Of which: domestic PSEs	-	-	3,727,753	-	-	-	-	-	-	-	3,727,753
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	1,233,993	-	-	-	-	-	-	-	-	-	1,233,993
4	Bank exposures	-	-	31,673,914	-	37,691,417	-	2,634,316	-	-	-	71,999,647
5	Securities firm exposures	-	-	-	-	1,279,399	-	-	-	-	-	1,279,399
6	Corporate exposures	-	-	1,248,012	-	18,679,188	-	93,478,376	-	-	-	113,405,576
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	1,421,346	-	370,438	-	-	-	68,933	-	-	-	1,860,717
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	-	-	-	-	-	3,929,534	-	-	-	-	3,929,534
11	Residential mortgage loans	-	-	-	7,915,747	-	156,204	1,984,022	-	-	-	10,055,973
12	Other exposures which are not past due exposures	-	-	-	-	-	-	15,011,322	-	-	-	15,011,322
13	Past due exposures	-	-	172	-	-	-	86,910	3,017	-	-	90,099
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	13,791,004	-	37,242,579	7,915,747	57,650,004	4,085,738	113,263,879	3,017	-	-	233,951,968

REGULATORY DISCLOSURES (UNAUDITED)

7 Counterparty credit risk

(a) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches as at 30 June 2021

		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR approach (for derivative contracts)	163,174	1,387,769		1.4	2,171,320	1,732,935
1a	CEM (for derivative contracts)	–	–		1.4	–	–
2	IMM (CCR) approach			–	–	–	–
3	Simple approach (for SFTs)					–	–
4	Comprehensive approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	Total						1,732,935

(b) CVA capital charge as at 30 June 2021

		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	2,171,320	414,388
4	Total	2,171,320	414,388

REGULATORY DISCLOSURES (UNAUDITED)

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 2021

Exposure class	Risk Weight	Risk Weight										Total default risk exposure after CRM
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	163,976	-	510,175	-	-	-	-	-	674,151
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	104,234	-	569,219	-	-	-	673,453
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	823,716	-	-	-	823,716
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	-	-	163,976	-	614,409	-	1,392,935	-	-	-	2,171,320

REGULATORY DISCLOSURES (UNAUDITED)

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 2021

		Derivative contracts				SFTs	
		Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash – other currencies	–	100,322	–	66,545	–	–
2	Total	–	100,322	–	66,545	–	–

(e) Credit-related derivatives contracts

The Group did not have any credit-related derivatives contracts as at 30 June 2021.

(f) Exposures to CCPs

The Group did not have any exposures to CCPs as at 30 June 2021.

8 Market risk

Market risk under STM approach as at 30 June 2021

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	2,858,188
2	Equity exposures (general and specific risk)	413,475
3	Foreign exchange (including gold) exposures	6,969,000
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	9,800
7	Other approach	–
8	Securitization exposures	–
9	Total	10,250,463

REGULATORY DISCLOSURES (UNAUDITED)

9 Non-bank Mainland exposures

The Bank	30 June 2021			31 December 2020		
	On-balance sheet exposures	Off-balance sheet exposures	Total	On-balance sheet exposures	Off-balance sheet exposures	Total
Types of counterparties						
1. Central government, central government-owned entities and their subsidiaries and joint ventures	6,757,392	4,417	6,761,809	11,292,471	4,086	11,296,557
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	–	–	–	–	–	–
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	8,205,965	1,017,435	9,223,400	7,639,151	978,817	8,617,968
4. Other entities of central government not reported in item 1 above	1,476,431	–	1,476,431	2,967,436	–	2,967,436
5. Other entities of local governments not reported in item 2 above	933,707	175,000	1,108,707	1,083,003	172,813	1,255,816
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,071,561	840,963	7,912,524	7,380,726	808,929	8,189,655
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	962,675	–	962,675	877,993	488	878,481
Total	25,407,731	2,037,815	27,445,546	31,240,780	1,965,133	33,205,913
Total assets after provision	218,491,183			218,092,633		
On-balance sheet exposures as percentage of total assets	11.63%			14.32%		

REGULATORY DISCLOSURES (UNAUDITED)

10 Currency concentrations

As at 30 June 2021

Equivalent in Hong Kong dollars	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long/ (short) position	Net structural position
US Dollars	109,298,000	(80,678,000)	29,448,000	(31,901,000)	171,000	26,338,000	1,573,000
Pound Sterling	7,816,000	(5,965,000)	2,767,000	(4,592,000)	(25,000)	1,000	30,000
Euro Dollars	1,517,000	(1,465,000)	1,135,000	(1,096,000)	(97,000)	(6,000)	–
Renminbi	21,297,000	(19,650,000)	6,853,000	(6,809,000)	–	1,691,000	5,970,000
Canadian Dollars	1,448,000	(1,445,000)	48,000	(21,000)	(50,000)	(20,000)	–
Australian Dollars	2,844,000	(2,861,000)	1,352,000	(1,320,000)	–	15,000	–
Other currencies and gold	2,457,000	(1,178,000)	6,380,000	(7,411,000)	1,000	249,000	–
	146,677,000	(113,242,000)	47,983,000	(53,150,000)	–	28,268,000	7,573,000

As at 31 December 2020

Equivalent in Hong Kong dollars	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long/ (short) position	Net structural position
US Dollars	108,655,000	(81,811,000)	29,966,000	(28,323,000)	–	28,487,000	1,229,000
Pound Sterling	8,694,000	(6,695,000)	2,746,000	(4,736,000)	–	9,000	47,000
Euro Dollars	1,309,000	(1,350,000)	1,117,000	(1,070,000)	–	6,000	–
Renminbi	21,672,000	(20,086,000)	6,590,000	(6,521,000)	–	1,655,000	5,704,000
Canadian Dollars	1,662,000	(1,665,000)	17,000	(14,000)	–	–	–
Australian Dollars	2,934,000	(2,953,000)	2,294,000	(2,257,000)	–	18,000	–
Other currencies and gold	2,037,000	(1,056,000)	5,402,000	(6,179,000)	–	204,000	–
	146,963,000	(115,616,000)	48,132,000	(49,100,000)	–	30,379,000	6,980,000

Net structural position includes 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.

REVIEW OF OPERATIONS

Financial Review

Despite the ongoing COVID-19 pandemic and its impacts on certain economic segments, particularly with social distancing and travel restriction measures in place, the Hong Kong economy recovered notably in the first quarter of 2021, thanks in part to varying forms of government support. Led by a sharp rebound in global demand and thus strong growth in export of goods, Hong Kong's real Gross Domestic Product ("GDP") for the first quarter resumed appreciable year-on-year growth of 7.9%, after six consecutive quarters of contraction. The labour market began showing signs of stabilization with the seasonally adjusted unemployment rate declined from the historically high of 7.2% early this year to 5.5% in the three-month period ended June 2021, a possible indication that the economic effects of the epidemic started to recede. Nonetheless, the public health crisis, together with a low interest rate environment and continuing geopolitical tensions, remain as key uncertain factors impacting the pace of recovery.

For the first six months ended 30 June 2021, the consolidated profit after tax of Shanghai Commercial Bank Limited (the "Bank") was HK\$1,447 million, an increase of HK\$168 million or 13.1%, largely attributable to a surge in net fee and commission income of 10.7% which was mainly driven by the satisfactory growth in securities brokerage and investment products income, and a lower impairment charge. However, under the protracted low interest rate environment, net interest income recorded an increase of 3.4%, benefitted from lower interest cost of deposits from customers while the average net interest margin for the period narrowed by six basis points to 1.67% from 1.73% for the same period last year.

The overall loan-to-deposit ratio dropped from 57.2% at the end of 2020 to 56.0% at the end of June 2021 as loans and advances reduced by 1.2% to HK\$100.1 billion while total customer deposits increased by 1.1% to HK\$179.8 billion for the period.

The Bank's total expenses were 7.3% higher than that for the first half of last year, and the average cost-to-income ratio for the period marginally increased to 32.6%, from 31.9% for the same period last year.

Total comprehensive income attributable to equity holders for the first half ended 30 June 2021 at HK\$1,500 million was HK\$669 million, or 80.5% higher than that for the same period last year, mainly due to the mark-to-market valuation gain of our equity investment.

At the end of June 2021, the Bank's total assets increased by 2.1% to HK\$231.6 billion and shareholders' funds grew by 3.7% to HK\$33.6 billion when compared with the corresponding figures at the end of 2020. Returns on average total assets and average equity for the first half of 2021 were 1.3% and 8.8% respectively. The Bank's capital and liquidity levels remained robust, with capital adequacy ratio and common equity Tier 1 capital ratio as of 30 June 2021 at 20.6% and 17.4% respectively and the average liquidity maintenance ratio for the period at 59.9%.

Highlights of Business Performance

The uncertainties brought about by the COVID-19 pandemic have caused credit conditions to deteriorate and businesses delaying their investment decisions. Reduced customer activities coupled with a low interest rate environment affected both net interest income and non-interest income. Nevertheless, through continued prudent management and effective control of cost of funds, the Bank maintained sound credit quality on corporate and retail exposures, both local and overseas, and achieved a mild increase in net interest income. Focus on providing personalized banking services for corporate and Small and Medium-sized enterprises ("SMEs"), the Bank has stood together with local customers against the challenges emanated from the pandemic and supports the "SME Financing Guarantee Scheme" carried on by HKMC Insurance Limited, aiming to alleviate the cashflow pressures faced by customers during this historically difficult time.

Benefitting from market volatility, revenues from the Bank's securities and wealth management businesses stayed strong in the first half of 2021. The Credit Card Merchant business also saw year-on-year growth as businesses in the retail, food and hospitality sectors gradually resumed normal operations. Meanwhile, the Bank continued to grow deposits primarily from Current and Savings Accounts (CASA) with a growth of 7.2% from the end of December 2020. With a view to widening the Bank's product range, streamlining its operations and improving customer experience, new products and sales channels including the Remote Account Opening Platform, have been launched.

With respect to the Treasury business, the Bank continued to optimize the balance of highly liquid assets and to keep a close eye on liquidity management. The Bank kept abreast of the economic forecast and market development to constantly rebalance the debt securities portfolio. Since the yield curve steepened in the first quarter of 2021, the Bank has lengthened the duration of its debt securities to capture higher long-dated yields and remained focusing on high-quality bond issuers. Meanwhile, the Bank has been broadening foreign exchange products offerings to enhance service delivered to customers.

REVIEW OF OPERATIONS

Highlights of Business Performance (Continued)

For interest rate benchmark reform, the Bank has been progressing well on transitioning from the London Interbank Offered Rate (LIBOR) to Alternative Reference Rates (ARRs) for both local and overseas branches. Led by the Asset and Liability Committee and a designated Steering Committee, different functions across the Bank have contributed dedicated efforts in the areas of product management, risk and finance assessments, IT system upgrades, and client outreach to ensure a smooth transition. With the required people, product and system infrastructure in place, the Bank launched its ARR referencing trade finance and term loan products on 30 June 2021.

The target completion date for the redevelopment project at Catchick Street in West Point, Hong Kong will be in the second half of 2022 and the sale of the residential portion on strata-titled basis will kick off in the second half of 2021.

Sustainability

In response to the global call for developing a more sustainable world, a Board-level specialized Sustainability Committee has been formed to oversee the Bank's implementation of Environmental, Social and Governance ("ESG") and Green and Sustainable Banking ("GSB") related initiatives. The objective is to strengthen the Bank's abilities to embrace both the challenges and opportunities brought about by climate change. In line with the roadmap presented by the Hong Kong Monetary Authority ("HKMA"), the Bank has been assembling baseline data for ESG performance tracking, outlining a blueprint for integrating GSB initiatives into our business and operation strategies, as well as developing and selecting green banking solutions and sustainability-related investment products. In addition, we are committed to investing in the future of our communities, focusing on our society's education and social welfare, and being a socially responsible corporate citizen.

Bank Culture

In the first half of 2021, we have focused on strengthening our employees' understanding in the application of the Bank's core values in their day-to-day activity amidst our digital transformation process. We also recognize the importance of reinforcing the Bank's culture and we shall continue to promote our seven core values through a variety of channels as well as tailored team building activities.

Looking Ahead

Drawing upon the solid foundation we have built in our 70 years of operation and our tri-bank strategic alliance with The Shanghai Commercial & Savings Bank, Ltd. in Taiwan and Bank of Shanghai in Mainland China, the Bank looks to explore potential business development opportunities and make advances steadily in our digital transformation journey in the coming years. We will continue to invest in our technology and adopt a prudent approach to increase market share in SME segments. We also aim to enhance internal efficiency and external competitiveness through digital transformation. ESG and GSB awareness will remain important to us, and we will keep abreast of regulatory changes and requirements to create sustainable value.

STATEMENT OF COMPLIANCE

In preparing the Group Interim Financial Disclosure Statement, the Bank complies with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

Stephen Ching Yen LEE
Chairman

David Sek-chi KWOK
Managing Director and Chief Executive

Hong Kong, 25 August 2021

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 40, which comprises the interim condensed consolidated statement of financial position of Shanghai Commercial Bank Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2021 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. 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 of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 August 2021