



2022

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT



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

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022

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



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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Interest income	6	2,421,714	2,420,338
Interest expense	6	<u>(627,646)</u>	<u>(555,812)</u>
Net interest income		1,794,068	1,864,526
Fee and commission income	7	362,631	473,261
Fee and commission expense	7	<u>(23,925)</u>	<u>(29,217)</u>
Net fee and commission income	7	338,706	444,044
Net trading income	8	244,817	161,539
Net gains from disposal of investment securities at fair value through other comprehensive income		22,128	79,621
Dividend income from investment securities at fair value through other comprehensive income		2,525	4,354
Other operating income	9	61,830	70,397
Net earned insurance premium	10	18,008	17,971
Net insurance claims incurred and movement in policyholders' liabilities	10	(13,043)	(12,361)
Operating expenses	11	(880,787)	(857,226)
Credit impairment losses	12	<u>(46,348)</u>	<u>(44,221)</u>
Operating profit		1,541,904	1,728,644
Share of net profits of associates and joint venture		<u>37,619</u>	<u>54,142</u>
Profit before income tax		1,579,523	1,782,786
Income tax expense	13	<u>(328,144)</u>	<u>(336,076)</u>
Profit for the period		<u>1,251,379</u>	<u>1,446,710</u>
Attributable to:			
Equity holders of the Bank		1,249,098	1,443,398
Non-controlling interests		<u>2,281</u>	<u>3,312</u>
		<u>1,251,379</u>	<u>1,446,710</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Profit for the period	1,251,379	1,446,710
Other comprehensive income		
<u>Items that may be reclassified to profit or loss</u>		
Currency translation difference arising from overseas operations	(67,210)	21,916
Investment securities at fair value through other comprehensive income		
– Change in fair value	(1,922,895)	(164,710)
– Change in credit impairment losses recognised in profit or loss	(4,325)	6,744
– Fair value changes transferred to profit or loss on disposal	(22,128)	(79,621)
– Deferred income tax	320,929	40,314
Share of reserves of associates and joint venture	(51,311)	3,786
<u>Items that will not be reclassified to profit or loss</u>		
Equity investments at fair value through other comprehensive income		
– Change in fair value	(439,843)	230,079
– Deferred income tax	(1,007)	(2,443)
Share of reserves of associates and joint venture	290	161
Other comprehensive income for the period, net of tax	(2,187,500)	56,226
Total comprehensive income for the period	(936,121)	1,502,936
Attributable to:		
Equity holders of the Bank	(938,772)	1,499,624
Non-controlling interests	2,651	3,312
Total comprehensive income for the period	(936,121)	1,502,936

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2022 (unaudited)	31 December 2021 (audited)
ASSETS			
Cash and balances with banks	14	37,514,795	30,685,587
Placements with banks	15	21,336,379	15,478,679
Loans and advances to customers	16	96,845,109	95,906,226
Financial assets at fair value through profit or loss	22(b)	862,122	2,103,933
Derivative financial instruments	17	771,387	317,330
Investment securities at fair value through other comprehensive income	22(b)	66,087,313	81,438,993
Investment securities at amortised cost		1,976,081	1,573,635
Properties for sale	18	695,914	683,924
Investments in associates and joint venture		449,192	466,829
Properties and equipment	19	2,492,733	2,550,277
Investment properties	20	998,225	1,002,672
Deferred income tax assets	24	383,363	55,610
Other assets		2,359,786	1,669,618
TOTAL ASSETS		232,772,399	233,933,313
LIABILITIES			
Deposits and balances from banks		8,302,040	9,032,550
Deposits from customers	21	184,003,544	183,587,245
Derivative financial instruments	17	669,660	251,085
Subordinated debts	23	4,298,361	4,269,682
Other liabilities		2,272,733	2,426,108
Current income tax liabilities		249,054	140,035
Deferred income tax liabilities	24	5,241	5,241
TOTAL LIABILITIES		199,800,633	199,711,946
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS			
Share capital		2,000,000	2,000,000
Retained earnings		22,545,035	21,608,831
Reserves	25	8,327,933	10,515,909
		32,872,968	34,124,740
Non-controlling interests in equity		98,798	96,627
TOTAL EQUITY		32,971,766	34,221,367
TOTAL EQUITY AND LIABILITIES		232,772,399	233,933,313

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2022

(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 2021		2,000,000	11,426,064	18,977,170	91,565	32,494,799
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		–	30,363	–	–	30,363
Currency translation difference arising from overseas operations		–	9,314	12,602	–	21,916
Share of reserves of associates and joint venture		–	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>
As at 1 January 2022		<u>2,000,000</u>	<u>10,515,909</u>	<u>21,608,831</u>	<u>96,627</u>	<u>34,221,367</u>
Profit for the period		–	–	1,249,098	2,281	1,251,379
Other comprehensive income net of tax						
Net change in fair value of investment securities at fair value through other comprehensive income	25	–	(2,069,639)	–	370	(2,069,269)
Currency translation difference arising from overseas operations	25	–	(67,316)	106	–	(67,210)
Share of reserves of associates and joint venture	25	–	(51,021)	–	–	(51,021)
Total other comprehensive income		–	(2,187,976)	106	370	(2,187,500)
Payment of dividend relating to 2021		–	–	(313,000)	(480)	(313,480)
As at 30 June 2022 (unaudited)		<u>2,000,000</u>	<u>8,327,933</u>	<u>22,545,035</u>	<u>98,798</u>	<u>32,971,766</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Cash flows from operating activities			
Profit before income tax		1,579,523	1,782,786
Share of net profits of associates and joint venture		(37,619)	(54,142)
Credit impairment losses	12	46,348	44,221
Depreciation expenses		120,400	119,330
Net gains from disposal of equipment	9	(6)	(5)
Net gains from disposal of investment securities at fair value through other comprehensive income		(22,128)	(79,621)
Interest income on investment securities at amortised cost and at fair value through other comprehensive income	6	(569,110)	(609,705)
Interest expense on subordinated debts	6	97,011	96,342
Interest expense on lease liabilities	6	1,321	458
Dividend income on investment securities at fair value through other comprehensive income		(2,525)	(4,354)
Hong Kong profits tax paid		(86,476)	(105,305)
Overseas tax paid		(160,745)	(181,091)
Effect of exchange rate changes		205,796	152,080
		1,171,790	1,160,994
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities:			
– Net (increase)/decrease in balances with banks with original maturity beyond 3 months		(928,353)	2,948,687
– Net (increase)/decrease in placements with banks with original maturity beyond 3 months		(6,615,347)	918,060
– Net decrease/(increase) in financial assets at fair value through profit or loss		1,241,811	(52,832)
– Net increase in derivative financial instruments		(35,482)	(173,198)
– Net (increase)/decrease in loans and advances to customers		(1,549,150)	1,130,658
– Net (increase)/decrease in right-of-use assets		(41,732)	4,961
– Net (increase)/decrease in other assets		(778,206)	582,455
– Net (decrease)/increase in deposits and balances from banks		(526,661)	1,942,834
– Net increase in deposits from customers		1,292,675	1,795,331
– Net increase/(decrease) in lease liabilities		41,532	(5,984)
– Net (decrease)/increase in other liabilities		(154,207)	435,624
		(6,881,330)	10,687,590
Net cash (used in)/generated from operating activities		(6,881,330)	10,687,590

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Cash flows from investing activities		
Interest received on investment securities at amortised cost and at fair value through other comprehensive income	732,536	626,979
Dividends received on investment securities at fair value through other comprehensive income	2,525	4,354
Dividends received from associates and joint venture	4,235	4,235
Purchases of properties and equipment	(19,170)	(52,592)
Additions of investment properties	–	(1,040)
Additions of properties for sale	(13,109)	(66,623)
Proceeds from sale of equipment	16	10
Purchases of investment securities at amortised cost and at fair value through other comprehensive income	(14,703,969)	(38,896,284)
Proceeds from sale and redemption of investment securities at amortised cost and at fair value through other comprehensive income	<u>26,866,012</u>	<u>34,852,381</u>
Net cash generated from/(used in) investing activities	<u>12,869,076</u>	<u>(3,528,580)</u>
Cash flows from financing activities		
Interest paid on subordinated debts	(95,280)	(94,444)
Payment of lease liabilities	(57,954)	(57,922)
Dividend paid to equity holders	(313,000)	(313,000)
Dividend paid to non-controlling interests	(480)	(480)
Net cash used in financing activities	<u>(466,714)</u>	<u>(465,846)</u>
Net increase in cash and cash equivalents	5,521,032	6,693,164
Cash and cash equivalents as at 1 January	30,342,667	27,999,639
Effect of exchange rate changes on cash and cash equivalents	<u>(548,254)</u>	<u>34,947</u>
Cash and cash equivalents as at 30 June	<u><u>35,315,445</u></u>	<u><u>34,727,750</u></u>
Represented by:		
Cash and balances with banks with less than 3 months' original maturity	34,328,926	32,439,771
Placements with banks with less than 3 months' original maturity	986,519	2,132,795
Debt securities – Exchange Fund Bills with less than 3 months' original maturity	–	155,184
	<u>35,315,445</u>	<u>34,727,750</u>
Cash flows from operating, investing and financing activities included:		
Interest received	2,509,243	2,533,524
Interest paid	(477,820)	(530,646)

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 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 24 August 2022.

2 Basis of preparation

This Group Interim Financial Disclosure Statement for the six months ended 30 June 2022 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the year ended 31 December 2021 that is included in the 2022 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 2021 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 2022 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 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(a) Amended standards adopted by the Group for the period ended 30 June 2022

	Effective for accounting periods beginning on or after
Amendments to HKAS 37 – Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS – Annual Improvement to HKFRS Standards 2018–2020	1 January 2022

The adoption of the above amendments does not have significant impact to the financial statements of the Group.

(b) Impact of new and amended standards issued but not yet applied by the Group

	Effective for accounting periods beginning on or after
HKFRS 17 “Insurance Contracts”	1 January 2023
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a single transaction	1 January 2023

The Hong Kong Institute of Certified Public Accountants has issued a few amendments and new standards which are not yet effective for the period ended 30 June 2022 and which have not been adopted in these consolidated financial statements. The key new standard which may be relevant to the Group is HKFRS 17 “Insurance Contracts”.

HKFRS 17 “Insurance Contracts” is effective for the accounting periods 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 2021.

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 2022:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	30 June 2022		31 December 2021	
					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	15,154	14,769	15,926	15,727
Shacom Futures Limited	Hong Kong	Advising and dealing in futures contracts Hong Kong	600,000 ordinary shares	100% ¹	111,192	55,172	93,674	56,092
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	100% ¹	3,304,709	12,375	3,243,581	11,620
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US\$1 each	100% ¹	27,613	4,295	30,745	4,503
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	100% ¹	5,567	5,567	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	2,690	2,690	2,669	2,669
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	100% ¹	1,083,107	1,190	1,082,282	357
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	100% ¹	29,605	20,558	29,246	22,143
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	100% ¹	4,180	2,045	3,682	1,908
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	2,000,000 ordinary shares	100% ¹	314,703	268,734	387,246	266,846
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	100% ¹	935	634	911	607
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	60% ²	353,470	231,308	335,194	225,846
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100% ¹	3	(188)	6	(180)
Glory Step Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	389,739	(27,022)	386,297	(25,403)
Silver Wisdom Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	1,162,278	(47,497)	1,148,006	(40,902)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% ¹	333,418	150,843	305,267	122,662
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% ¹	335,010	152,362	306,274	123,596
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% ¹	336,246	153,738	307,260	124,722

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 or 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 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Interest income		
Balances with banks and placements with banks	152,821	81,547
Investment securities at amortised cost	2,855	423
Investment securities at fair value through other comprehensive income	566,255	609,282
Loans and advances to customers	1,697,250	1,725,900
Others	2,533	3,186
	<u>2,421,714</u>	<u>2,420,338</u>
Interest income on financial assets that are not measured at fair value through profit or loss	<u>2,421,714</u>	<u>2,420,338</u>
Interest expense		
Deposits and balances from banks	54,226	26,404
Deposits from customers	474,183	431,789
Subordinated debts	97,011	96,342
Lease liabilities	1,321	458
Others	905	819
	<u>627,646</u>	<u>555,812</u>
Interest expense on financial liabilities that are not measured at fair value through profit or loss	<u>627,646</u>	<u>555,812</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

7 Net fee and commission income

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Fee and commission income		
Bills	30,770	35,472
Nominees, custodian and securities brokerage	100,183	164,835
Investment products	56,168	88,581
Remittance	27,568	28,842
Credit cards	19,542	21,016
Retail banking	23,047	25,571
Insurance	11,397	23,207
Loans and advances and facility fees	92,602	84,235
Trust and other commissions	1,354	1,502
Total fee and commission income	362,631	473,261
Less: fee and commission expense	(23,925)	(29,217)
Net fee and commission income	338,706	444,044
Of which:		
Net fee and commission income arising from financial assets or financial liabilities that are not measured at fair value through profit or loss		
– fee and commission income	142,914	140,723
– fee and commission expense	3,511	6,346
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	10,711	11,154

8 Net trading income

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Foreign exchange	322,103	140,501
Interest rate instruments	(24,947)	10,955
Equity instruments:		
– Trading (losses)/gains	(55,488)	12,282
– Dividend income	2,863	1,849
Other trading income	286	(4,048)
	244,817	161,539

“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. “Equity instruments” include equity securities and equity derivatives.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

9 Other operating income

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Gross rental income from investment properties	26,400	34,572
Net gains from disposal of equipment	6	5
Others	<u>35,424</u>	<u>35,820</u>
	<u><u>61,830</u></u>	<u><u>70,397</u></u>

Direct operating expenses arising from investment properties of HK\$699,000 (six months ended 30 June 2021: HK\$11,000) 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 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Insurance premium revenue	23,834	23,365
Insurance premium ceded to reinsurers	<u>(5,826)</u>	<u>(5,394)</u>
	<u><u>18,008</u></u>	<u><u>17,971</u></u>

The related net insurance claims incurred and movement in policyholders' liabilities of HK\$13,043,000 (six months ended 30 June 2021: HK\$12,361,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK\$664,000 (six months ended 30 June 2021: HK\$386,000).

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

11 Operating expenses

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Auditor's remuneration		
Audit services (Note a)	5,882	4,420
Non-audit-related services (Note b)	4,307	2,799
Premises management expenses	23,414	21,933
Depreciation expenses		
Properties and equipment	61,968	59,696
Right-of-use assets	53,985	55,187
Investment properties	4,447	4,447
Employee benefit expenses		
Wages and salaries and other costs (Note c)	515,905	515,922
Pension costs – defined contribution schemes	35,334	35,382
Expenses relating to short-term and low-value leases	1,028	1,223
Information technology and communications	47,029	42,780
Legal and consultancy	23,247	7,626
Printing, stationery and postage	11,068	11,365
Promotion and advertising	17,149	17,738
Others	76,024	76,708
	880,787	857,226

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-related 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 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 2022 was 1,796 (30 June 2021: 1,868).

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

12 Credit impairment losses

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Loans and advances to customers	32,748	32,702
Balances with banks and placements with banks	123	684
Investment securities	(4,334)	6,746
Other assets	2,233	365
Loan commitments and financial guarantee contracts	15,578	3,724
	<u>46,348</u>	<u>44,221</u>

13 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 16.5%) on the estimated assessable profits for the six months ended 30 June 2022. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2022 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 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Current income tax:		
– Hong Kong profits tax	177,950	201,383
– Overseas taxation	158,155	153,677
– Under/(over) provisions in respect of prior years	248	(22,345)
Total current income tax	<u>336,353</u>	<u>332,715</u>
Deferred income tax:		
– Hong Kong deferred tax	577	(3,666)
– Overseas deferred tax	(8,786)	7,027
Total deferred income tax	<u>(8,209)</u>	<u>3,361</u>
Income tax expense	<u>328,144</u>	<u>336,076</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

14 Cash and balances with banks

	30 June 2022 (unaudited)	31 December 2021 (audited)
Cash in hand	723,363	817,858
Balances with central banks and Hong Kong Monetary Authority	2,697,795	2,904,044
Balances with banks	<u>34,095,463</u>	<u>26,965,504</u>
	37,516,621	30,687,406
Less: Stage 1 credit impairment allowances	<u>(1,826)</u>	<u>(1,819)</u>
	<u><u>37,514,795</u></u>	<u><u>30,685,587</u></u>

Included in the above amounts, HK\$219,678,000 (31 December 2021: HK\$261,734,000) were deposited in central banks or designated banks as at 30 June 2022, to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business. In addition, financial assets amounted to HK\$974,223,000 as at 30 June 2022 (31 December 2021: HK\$1,967,256,000) comprising balances with banks of HK\$484,904,000 (31 December 2021: HK\$287,104,000) and financial assets at fair value through profit or loss of HK\$489,319,000 (31 December 2021: HK\$1,680,152,000) were under a collateral arrangement with a shareholder of the Bank for its provision of the credit facilities of HK\$784,795,000 (31 December 2021: HK\$779,830,000) to the Bank's branches in the United States.

15 Placements with banks

	30 June 2022 (unaudited)	31 December 2021 (audited)
Placements with banks maturing between 1 and 12 months	21,337,438	15,479,622
Less: Stage 1 credit impairment allowances	<u>(1,059)</u>	<u>(943)</u>
	<u><u>21,336,379</u></u>	<u><u>15,478,679</u></u>

Included in the above amounts, HK\$289,852,000 (31 December 2021: HK\$335,327,000) were deposited with designated banks in the People's Republic of China as at 30 June 2022, to comply with the local statutory requirements.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers

	30 June 2022 (unaudited)	31 December 2021 (audited)
Gross loans and advances to customers	97,389,982	96,422,010
Less: credit impairment allowances		
– Stage 1	(226,021)	(288,298)
– Stage 2	(208,980)	(174,029)
– Stage 3	(109,872)	(53,457)
	96,845,109	95,906,226
Gross trade bills and other eligible bills, included within gross loans and advances to customers	714,551	484,716
Less: credit impairment allowances		
– Stage 1	(798)	(361)
– Stage 2	(108)	(32)
	713,645	484,323

The Group accepted listed securities at fair value of HK\$2,566,240,000 as at 30 June 2022 (31 December 2021: HK\$2,971,636,000) 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 2022 (unaudited)		31 December 2021 (audited)	
	Balance	% covered by collateral	Balance	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,646,525	46%	2,944,336	53%
– Property investment	4,891,807	91%	5,048,305	94%
– Financial concerns	2,661,295	20%	2,723,750	13%
– Stockbrokers	184,600	100%	424,980	88%
– Wholesale and retail trade	1,234,405	61%	1,337,980	54%
– Manufacturing	842,484	65%	898,676	66%
– Transport and transport equipment	393,668	34%	593,337	57%
– Recreational activities	2,482,408	13%	2,239,583	11%
– Information technology – telecommunication	4,815	100%	4,773	100%
– Hotels, boarding houses and catering	2,190,470	91%	1,950,340	91%
– Others	15,868,544	41%	12,573,081	57%
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	59,499	100%	64,374	99%
– Loans for the purchase of other residential properties	3,600,047	100%	3,744,094	100%
– Credit card advances	157,670	0%	194,080	0%
– Others	5,990,104	96%	6,673,119	96%
Trade financing	8,101,954	59%	8,763,904	58%
Loans for use outside Hong Kong	45,365,136	87%	45,758,582	87%
	96,675,431	73%	95,937,294	76%

As at 30 June 2022 and 31 December 2021, 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 2022 (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	59,332,024	132,475	63,144	26,913	354,891
Mainland China	5,781,176	276,357	276,357	82,959	15,019
United States	27,568,856	415,632	256,625	–	45,094
Others	3,993,375	–	–	–	19,091
	<u>96,675,431</u>	<u>824,464</u>	<u>596,126</u>	<u>109,872</u>	<u>434,095</u>
% of total loans and advances to customers		<u>0.85</u>			
Fair value of collateral		<u>1,319,590</u>			
As at 31 December 2021 (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	58,712,390	84,439	33,463	16,642	383,190
Mainland China	6,367,989	73,629	73,629	36,815	17,204
United States	26,817,058	362,433	–	–	41,200
Others	4,039,857	–	–	–	20,340
	<u>95,937,294</u>	<u>520,501</u>	<u>107,092</u>	<u>53,457</u>	<u>461,934</u>
% of total loans and advances to customers		<u>0.54</u>			
Fair value of collateral		<u>870,897</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 2022 (unaudited)		31 December 2021 (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	250,614	0.26	14,997	0.02
– 1 year or less but over 6 months	271,494	0.28	25,023	0.03
– over 1 year	<u>74,018</u>	<u>0.07</u>	<u>67,072</u>	<u>0.07</u>
	<u>596,126</u>	<u>0.61</u>	<u>107,092</u>	<u>0.12</u>
Current market value of collateral	<u>899,403</u>		<u>188,907</u>	
Covered portion by collateral	<u>570,145</u>		<u>91,701</u>	
Uncovered portion by collateral	<u>25,981</u>		<u>15,391</u>	
Credit impairment allowances	<u>108,834</u>		<u>52,751</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 2022 (unaudited)		31 December 2021 (audited)	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	<u>25,866</u>	<u>0.03</u>	<u>27,868</u>	<u>0.03</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Derivative financial instruments

As at 30 June 2022 (unaudited)	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	191,507,220	771,301	(668,837)
Interest rate contracts	80,000	86	(86)
Equity contracts	33,353	–	(737)
Total recognised derivative assets/(liabilities)		<u>771,387</u>	<u>(669,660)</u>

As at 31 December 2021 (audited)	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	88,109,435	316,699	(250,945)
Interest rate contracts	80,000	140	(140)
Equity contracts	34,686	491	–
Total recognised derivative assets/(liabilities)		<u>317,330</u>	<u>(251,085)</u>

Credit risk weighted amount

	30 June 2022 (unaudited)	31 December 2021 (audited)
Derivatives held for trading	<u>1,964,366</u>	<u>909,736</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 are calculated in accordance with the standardised (counterparty credit risk) approach 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 2022 (unaudited)	31 December 2021 (audited)
Property development		
Leasehold land held for development for sale	381,188	381,188
Building development cost	314,726	302,736
	695,914	683,924

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2022, the net book amount of land and building incurred for this project were HK\$873,275,000 (31 December 2021: HK\$855,458,000), of which HK\$695,914,000 (31 December 2021: HK\$683,924,000) were classified as properties for sale while the remaining HK\$177,361,000 (31 December 2021: HK\$171,534,000) 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			Total
				Leasehold land	Development cost	Right-of-use assets	
As at 1 January 2021							
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>
Year ended 31 December 2021							
Opening net book amount	1,195,889	746,984	234,957	96,857	48,022	334,447	2,657,156
Additions	–	1,952	69,502	–	26,767	62,654	160,875
Adjustments	–	–	–	–	–	(34,341)	(34,341)
Disposals/write-off/expiry							
Cost	–	–	(10,466)	–	–	(77,522)	(87,988)
Accumulated depreciation	–	–	10,444	–	–	77,522	87,966
Depreciation charge	(17,432)	(25,602)	(79,904)	(112)	–	(110,637)	(233,687)
Exchange adjustments	–	423	(43)	–	–	(84)	296
Closing net book amount	<u>1,178,457</u>	<u>723,757</u>	<u>224,490</u>	<u>96,745</u>	<u>74,789</u>	<u>252,039</u>	<u>2,550,277</u>
As at 31 December 2021 (audited)							
Cost	1,391,522	1,082,228	988,917	97,823	74,789	643,891	4,279,170
Accumulated depreciation	(213,065)	(358,471)	(764,427)	(1,078)	–	(391,852)	(1,728,893)
Net book amount	<u>1,178,457</u>	<u>723,757</u>	<u>224,490</u>	<u>96,745</u>	<u>74,789</u>	<u>252,039</u>	<u>2,550,277</u>
Six months ended 30 June 2022							
Opening net book amount	1,178,457	723,757	224,490	96,745	74,789	252,039	2,550,277
Additions	–	–	13,287	–	5,883	42,721	61,891
Adjustments	–	–	–	–	–	(989)	(989)
Disposals/write-off/expiry							
Cost	–	–	(10)	–	–	(63,684)	(63,694)
Accumulated depreciation	–	–	–	–	–	63,684	63,684
Depreciation charge	(8,716)	(12,911)	(40,285)	(56)	–	(53,985)	(115,953)
Exchange adjustments	–	(1,421)	(888)	–	–	(174)	(2,483)
Closing net book amount	<u>1,169,741</u>	<u>709,425</u>	<u>196,594</u>	<u>96,689</u>	<u>80,672</u>	<u>239,612</u>	<u>2,492,733</u>
As at 30 June 2022 (unaudited)							
Cost	1,391,522	1,079,976	999,104	97,823	80,672	621,134	4,270,231
Accumulated depreciation	(221,781)	(370,551)	(802,510)	(1,134)	–	(381,522)	(1,777,498)
Net book amount	<u>1,169,741</u>	<u>709,425</u>	<u>196,594</u>	<u>96,689</u>	<u>80,672</u>	<u>239,612</u>	<u>2,492,733</u>

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2022, the net book amount of land and building incurred for this project were HK\$873,275,000 (31 December 2021: HK\$855,458,000), of which HK\$695,914,000 (31 December 2021: HK\$683,924,000) were classified as properties for sale (Note 18) while the remaining HK\$177,361,000 (31 December 2021: HK\$171,534,000) as bank premises under development in accordance with the redevelopment plan.

As at 30 June 2022, interests in freehold land outside Hong Kong amounted to HK\$33,257,000 (31 December 2021: HK\$34,623,000) 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 2021			
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>
Year ended 31 December 2021			
Opening net book amount	714,035	296,491	1,010,526
Additions	–	1,040	1,040
Depreciation charge	<u>(866)</u>	<u>(8,028)</u>	<u>(8,894)</u>
Closing net book amount	<u>713,169</u>	<u>289,503</u>	<u>1,002,672</u>
As at 31 December 2021 (audited)			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	<u>(12,136)</u>	<u>(46,163)</u>	<u>(58,299)</u>
Net book amount	<u>713,169</u>	<u>289,503</u>	<u>1,002,672</u>
Six months ended 30 June 2022			
Opening net book amount	713,169	289,503	1,002,672
Depreciation charge	<u>(433)</u>	<u>(4,014)</u>	<u>(4,447)</u>
Closing net book amount	<u>712,736</u>	<u>285,489</u>	<u>998,225</u>
As at 30 June 2022 (unaudited)			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	<u>(12,569)</u>	<u>(50,177)</u>	<u>(62,746)</u>
Net book amount	<u>712,736</u>	<u>285,489</u>	<u>998,225</u>

As at 30 June 2022, the Group's investment properties were valued at HK\$2,544,900,000 (31 December 2021: HK\$2,843,000,000) by an independent firm of Jones Lang LaSalle Limited (31 December 2021: 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 2022 (unaudited)	31 December 2021 (audited)
Not later than 1 year	51,644	41,945
1 to 2 years	40,470	26,112
2 to 5 years	31,876	18,167
	<u>123,990</u>	<u>86,224</u>

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from 2 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 2022 (unaudited)	31 December 2021 (audited)
Demand deposits and current accounts	22,086,111	19,764,787
Savings deposits	55,333,561	57,883,620
Time, call and notice deposits	106,191,474	105,548,923
Deposits from Hong Kong Government Exchange Fund	392,398	389,915
	<u>184,003,544</u>	<u>183,587,245</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 2022: HK\$1,760,356,000; 31 December 2021: HK\$1,369,774,000) 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\$4,320,979,000 (31 December 2021: HK\$4,429,411,000) 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 2022 (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities (Note a)	491,447	1,013	–	492,460
Equity securities	359,438	–	10,224	369,662
Derivative financial instruments				
Exchange rate contracts	–	771,301	–	771,301
Interest rate contracts	–	86	–	86
Equity contracts	–	–	–	–
Investment securities at fair value through other comprehensive income				
Debt securities	33,012,950	29,576,058	2,874	62,591,882
Equity securities (Note b)	3,431,231	–	64,200	3,495,431
Total Assets	37,295,066	30,348,458	77,298	67,720,822
Derivative financial instruments				
Exchange rate contracts	–	668,837	–	668,837
Interest rate contracts	–	86	–	86
Equity contracts	737	–	–	737
Total Liabilities	737	668,923	–	669,660
As at 31 December 2021 (audited)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities (Note a)	3,123	1,680,152	–	1,683,275
Equity securities	410,434	–	10,224	420,658
Derivative financial instruments				
Exchange rate contracts	–	316,699	–	316,699
Interest rate contracts	–	140	–	140
Equity contracts	491	–	–	491
Investment securities at fair value through other comprehensive income				
Debt securities	37,308,504	40,192,341	2,874	77,503,719
Equity securities (Note b)	3,869,194	–	66,080	3,935,274
Total Assets	41,591,746	42,189,332	79,178	83,860,256
Derivative financial instruments				
Exchange rate contracts	–	250,945	–	250,945
Interest rate contracts	–	140	–	140
Equity contracts	–	–	–	–
Total Liabilities	–	251,085	–	251,085

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Note a: Financial assets amounted to HK\$974,223,000 as at 30 June 2022 (31 December 2021: HK\$1,967,256,000) comprising balances with banks of HK\$484,904,000 (31 December 2021: HK\$287,104,000) and financial assets at fair value through profit or loss of HK\$489,319,000 (31 December 2021: HK\$1,680,152,000) were under a collateral arrangement with a shareholder of the Bank for its provision of the credit facilities of HK\$784,795,000 (31 December 2021: HK\$779,830,000) to the Bank's branches in the United States.

Note b: As at 30 June 2022, equity securities designated at fair value through other comprehensive income amounting to HK\$3,495,431,000 (31 December 2021: HK\$3,935,274,000) were for long term investment purpose, of which HK\$3,271,758,000 (31 December 2021: HK\$3,717,703,000) were the fair value of the Bank's investment in Bank of Shanghai, China.

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\$1,708,000 (31 December 2021: HK\$1,732,000) or decreased by HK\$1,692,000 (31 December 2021: HK\$1,716,000) and profit or loss would be increased/decreased by HK\$511,000 (31 December 2021: HK\$511,000) respectively.

The following table presents the changes in level 3 instruments for the period ended 30 June 2022 and year ended 31 December 2021 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 2021	8,722	8,722	64,474	2,874	67,348
Total gains					
– Profit	1,502	1,502	–	–	–
– Other comprehensive income	–	–	710	–	710
Exchange adjustments	–	–	896	–	896
As at 31 December 2021 (audited) and 1 January 2022	10,224	10,224	66,080	2,874	68,954
Total gains					
– Profit	–	–	–	–	–
– Other comprehensive income	–	–	(14)	–	(14)
Exchange adjustments	–	–	(1,866)	–	(1,866)
As at 30 June 2022 (unaudited)	10,224	10,224	64,200	2,874	67,074

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Subordinated debts

	30 June 2022 (unaudited)	31 December 2021 (audited)
US\$250 million fixed rate subordinated notes issued due 2027 at amortised cost (Note a)	1,952,850	1,939,939
US\$300 million fixed rate subordinated notes issued due 2029 at amortised cost (Note b)	2,345,511	2,329,743
	<u>4,298,361</u>	<u>4,269,682</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)/losses on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2021	26,836	(11,264)	(3)	12,099	27,668
(Charged)/credited to the statement of profit or loss	(1,377)	739	–	729	91
Exchange adjustments	651	–	–	77	728
Reclassified from/(to) deferred income tax liabilities	71,373	(40,711)	(3,597)	58	27,123
As at 31 December 2021 (audited) and 1 January 2022	97,483	(51,236)	(3,600)	12,963	55,610
Credited/(charged) to the statement of profit or loss	14,894	363	–	(7,048)	8,209
Exchange adjustments	(1,448)	1,005	–	65	(378)
Credited to other comprehensive income	–	–	319,922	–	319,922
As at 30 June 2022 (unaudited)	<u>110,929</u>	<u>(49,868)</u>	<u>316,322</u>	<u>5,980</u>	<u>383,363</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 2021	67,301	(51,197)	(137,108)	11,133	(109,871)
Credited/(charged) to the statement of profit or loss	4,073	(5,038)	–	(793)	(1,758)
Credited to other comprehensive income	–	–	133,511	–	133,511
Reclassified (to)/from deferred income tax assets	(71,373)	40,711	3,597	(58)	(27,123)
As at 31 December 2021 (audited) and 30 June 2022 (unaudited)	<u>1</u>	<u>(15,524)</u>	<u>–</u>	<u>10,282</u>	<u>(5,241)</u>

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

25 Reserves attributable to equity holders

	Regulatory reserve (Note a)	Investment revaluation reserve	General and other reserves	Total
As at 1 January 2021	940,271	3,214,926	7,270,867	11,426,064
Net change in fair value of investment securities at fair value through other comprehensive income (Note b)	–	(934,596)	–	(934,596)
Currency translation difference arising from overseas operations	2,040	–	31,970	34,010
Share of reserves of associates and joint venture	–	(9,268)	(301)	(9,569)
As at 31 December 2021 (audited) and 1 January 2022	942,311	2,271,062	7,302,536	10,515,909
Net change in fair value of investment securities at fair value through other comprehensive income (Note b)	–	(2,069,639)	–	(2,069,639)
Currency translation difference arising from overseas operations	(3,359)	–	(63,957)	(67,316)
Share of reserves of associates and joint venture	–	(51,113)	92	(51,021)
As at 30 June 2022 (unaudited)	938,952	150,310	7,238,671	8,327,933

Note a: 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.

Note b: For the six months ended 30 June 2022, net change in fair value of investment securities at fair value through other comprehensive income was a loss of HK\$2,069,639,000 (for the year ended 31 December 2021: loss of HK\$934,596,000) due to the decrease in net fair value of HK\$440,850,000 (for the year ended 31 December 2021: HK\$246,012,000) on equities holdings and HK\$1,628,789,000 (for the year ended 31 December 2021: HK\$688,584,000) from debt securities portfolio mainly attributable to the adverse market sentiment on interest rate hikes during the first half of 2022. As at 30 June 2022, the debt securities at fair value through other comprehensive income had 96% (31 December 2021: 95%) in investment grade or above based on Standard & Poor's ratings or their equivalents while 86% (31 December 2021: 84%) of the portfolio maturing within 3 years.

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 2022 (unaudited)	31 December 2021 (audited)
Direct credit substitutes	2,044,941	2,263,738
Trade-related contingencies	2,110,634	1,893,706
Forward forward deposits placed	313,918	230,917
Other commitments with an original maturity of:		
– under 1 year	3,294,439	1,162,198
– 1 year and over	5,566,606	6,199,238
– unconditionally cancellable	<u>33,194,683</u>	<u>37,077,197</u>
	<u>46,525,221</u>	<u>48,826,994</u>
Credit risk weighted amounts	<u>4,760,668</u>	<u>4,958,710</u>

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 2022 (unaudited)	31 December 2021 (audited)
Contracted but not provided for	<u>162,932</u>	<u>260,250</u>

(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 2022

(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 2022 (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	9,145,593	28,369,202	-	-	-	-	-	37,514,795
Placements with banks	-	-	3,757,487	17,578,892	-	-	-	21,336,379
Loans and advances to customers	4,031,333	7,630,494	9,893,772	22,348,818	37,753,115	14,470,699	716,878	96,845,109
Financial assets at fair value through profit or loss	-	458,166	3,140	-	-	31,154	369,662	862,122
Derivative financial instruments	-	256,385	198,369	255,813	60,820	-	-	771,387
Investment securities at fair value through other comprehensive income	-	3,303,857	5,064,511	15,395,144	36,440,878	2,384,617	3,498,306	66,087,313
Investment securities at amortised cost	-	119,987	102,036	1,244,610	509,448	-	-	1,976,081
Properties for sale	-	-	-	695,914	-	-	-	695,914
Investments in associates and joint venture	-	-	-	-	-	-	449,192	449,192
Properties and equipment	-	9,429	17,328	65,329	87,594	59,932	2,253,121	2,492,733
Investment properties	-	-	-	-	-	-	998,225	998,225
Deferred income tax assets	-	-	-	-	-	-	383,363	383,363
Other assets	827,338	718,540	70,986	266,279	430,789	42,334	3,520	2,359,786
Total assets	14,004,264	40,866,060	19,107,629	57,850,799	75,282,644	16,988,736	8,672,267	232,772,399
Liabilities								
Deposits and balances from banks	1,164,915	3,496,614	3,253,762	386,749	-	-	-	8,302,040
Deposits from customers	78,651,323	37,247,660	48,902,530	19,032,895	169,136	-	-	184,003,544
Derivative financial instruments	-	161,353	194,316	253,183	60,808	-	-	669,660
Subordinated debts	-	-	-	-	-	4,298,361	-	4,298,361
Other liabilities	301,868	1,114,843	236,753	467,569	91,898	59,802	-	2,272,733
Current income tax liabilities	-	-	-	249,054	-	-	-	249,054
Deferred income tax liabilities	-	-	-	-	-	-	5,241	5,241
Total liabilities	80,118,106	42,020,470	52,587,361	20,389,450	321,842	4,358,163	5,241	199,800,633
Net liquidity gap	(66,113,842)	(1,154,410)	(33,479,732)	37,461,349	74,960,802	12,630,573	8,667,026	32,971,766
Of which lease liabilities included in:								
Other liabilities	-	9,292	18,366	69,038	95,303	59,802	-	251,801

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

27 Maturity analysis (Continued)

As at 31 December 2021 (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	9,430,458	21,255,129	-	-	-	-	-	30,685,587
Placements with banks	-	-	6,246,221	9,232,458	-	-	-	15,478,679
Loans and advances to customers	5,201,816	7,675,293	11,257,024	20,169,940	33,087,724	15,046,431	3,467,998	95,906,226
Financial assets at fair value through profit or loss	-	-	64	3,133	31,981	1,648,097	420,658	2,103,933
Derivative financial instruments	-	46,094	141,229	107,847	22,160	-	-	317,330
Investment securities at fair value through other comprehensive income	-	3,953,939	8,543,850	24,383,839	37,015,680	3,603,537	3,938,148	81,438,993
Investment securities at amortised cost	-	-	101,838	218,788	1,253,009	-	-	1,573,635
Properties for sale	-	-	-	-	683,924	-	-	683,924
Investments in associates and joint venture	-	-	-	-	-	-	466,829	466,829
Properties and equipment	-	8,499	16,676	62,134	101,894	62,836	2,298,238	2,550,277
Investment properties	-	-	-	-	-	-	1,002,672	1,002,672
Deferred income tax assets	-	-	-	-	-	-	55,610	55,610
Other assets	258,443	601,646	93,503	264,881	388,344	49,998	12,803	1,669,618
Total assets	<u>14,890,717</u>	<u>33,540,600</u>	<u>26,400,405</u>	<u>54,443,020</u>	<u>72,584,716</u>	<u>20,410,899</u>	<u>11,662,956</u>	<u>233,933,313</u>
Liabilities								
Deposits and balances from banks	1,160,491	3,067,515	4,315,193	489,351	-	-	-	9,032,550
Deposits from customers	79,024,715	34,199,465	47,228,378	22,895,655	239,032	-	-	183,587,245
Derivative financial instruments	-	63,484	70,074	95,366	22,161	-	-	251,085
Subordinated debts	-	-	-	-	-	4,269,682	-	4,269,682
Other liabilities	634,268	1,085,883	201,614	313,579	128,045	62,719	-	2,426,108
Current income tax liabilities	-	128,133	11,902	-	-	-	-	140,035
Deferred income tax liabilities	-	-	-	-	-	-	5,241	5,241
Total liabilities	<u>80,819,474</u>	<u>38,544,480</u>	<u>51,827,161</u>	<u>23,793,951</u>	<u>389,238</u>	<u>4,332,401</u>	<u>5,241</u>	<u>199,711,946</u>
Net liquidity gap	<u>(65,928,757)</u>	<u>(5,003,880)</u>	<u>(25,426,756)</u>	<u>30,649,069</u>	<u>72,195,478</u>	<u>16,078,498</u>	<u>11,657,715</u>	<u>34,221,367</u>
Of which lease liabilities included in:								
Other liabilities	<u>-</u>	<u>8,989</u>	<u>17,610</u>	<u>66,753</u>	<u>110,862</u>	<u>62,719</u>	<u>-</u>	<u>266,933</u>

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 2022 (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	–	–	40,609	–	40,609
– Cash and balances with banks	13,365	–	–	533,371	546,736
– Deposits and balances from banks and customers	272,824	517,906	397,773	2,911,116	4,099,619
– Investment securities at fair value through other comprehensive income	159,473	–	–	–	159,473
– Stage 1 and Stage 2 credit impairment allowances	1	3	99	26	129
– Contingent liabilities and other commitments	–	2,000	61,310	–	63,310
Six months ended 30 June 2022 (unaudited)					
Interest income received from related parties	16	–	537	1,495	2,048
Interest expenses paid to related parties	526	1,531	3,314	12,615	17,986
Net fee and commission income/(expense) from/(to) related parties	(426)	24,161	2	(847)	22,890
Net other operating income/(expense) from/(to) related parties	15	(2,672)	(175)	–	(2,832)
As at 31 December 2021 (audited)	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 year end					
– Loans and advances	–	–	34,876	–	34,876
– Cash and balances with banks	14,270	–	–	456,761	471,031
– Deposits and balances from banks and customers	211,617	1,450,922	1,334,881	2,981,816	5,979,236
– Investment securities at fair value through other comprehensive income	151,491	–	–	–	151,491
– Stage 1 and Stage 2 credit impairment allowances	1	3	63	26	93
– Contingent liabilities and other commitments	–	2,000	45,496	–	47,496
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)

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 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Salaries and other short-term employee benefits	41,233	32,411

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, fixed deposits, safe deposit box, credit cards, loans and other credit facilities.

Trade finance – incorporating import and export bills services, invoice discounting/receivable financing and ECIC supported export finance for small and medium enterprises.

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 business activities under "Others" mainly comprise remittance, share dealing, provisions of trustee, wealth management and insurance services, and support services for operations not directly identified under other reportable segments.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 Segment reporting (Continued)

(a) By operating segment (Continued)

	Six months ended 30 June 2022 (unaudited)				
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	1,721,106	19,707	25,349	27,906	1,794,068
Non-interest income	140,523	37,788	266,945	229,715	674,971
Operating income	1,861,629	57,495	292,294	257,621	2,469,039
Operating expenses	(464,019)	(44,511)	(58,293)	(313,964)	(880,787)
Operating profit/(loss) before credit impairment losses	1,397,610	12,984	234,001	(56,343)	1,588,252
Credit impairment losses	(49,377)	(1,249)	4,012	266	(46,348)
Operating profit/(loss) after credit impairment losses	1,348,233	11,735	238,013	(56,077)	1,541,904
Share of net profits of associates and joint venture	–	–	–	37,619	37,619
Profit/(loss) before income tax (after taking into account internal fund transfers and cost allocation)	1,348,233	11,735	238,013	(18,458)	1,579,523
Income tax expense	301,815	1,843	33,972	(9,486)	328,144
Depreciation expenses	50,989	4,903	7,407	57,101	120,400
As at 30 June 2022 (unaudited):					
Total assets	96,875,473	4,008,706	126,200,045	5,688,175	232,772,399
Total liabilities	184,791,854	75,078	13,644,240	1,289,461	199,800,633
	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 31 December 2021 (audited):					
Total assets	96,266,483	3,726,559	128,253,615	5,686,656	233,933,313
Total liabilities	184,295,313	65,690	14,203,556	1,147,387	199,711,946

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 2022 (unaudited)			Six months ended 30 June 2022 (unaudited)		
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	198,173,724	185,891,294	44,100,971	1,896,701	1,099,591	59,669
United States	29,591,810	11,530,189	2,266,606	525,055	448,805	1,467
United Kingdom	5,006,865	2,379,150	157,644	47,283	31,127	755
Total	232,772,399	199,800,633	46,525,221	2,469,039	1,579,523	61,891

	As at 31 December 2021 (audited)			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	199,368,542	183,221,333	44,450,230	2,038,092	1,244,412	73,381
United States	29,056,681	12,729,630	4,234,800	547,196	504,751	1,860
United Kingdom	5,508,090	3,760,983	141,964	44,803	33,623	467
Total	233,933,313	199,711,946	48,826,994	2,630,091	1,782,786	75,708

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 2022 (unaudited)	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	26,578,000	2,104,000	135,000	2,322,000	31,139,000
Offshore centres	12,087,000	573,000	3,227,000	26,842,000	42,729,000
– of which Hong Kong	8,177,000	573,000	2,765,000	23,815,000	35,330,000
Developing Asia-Pacific	44,750,000	527,000	1,388,000	7,362,000	54,027,000
– of which China	29,689,000	527,000	1,388,000	5,685,000	37,289,000

As at 31 December 2021 (audited)	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	19,143,000	391,000	1,712,000	3,283,000	24,529,000
Offshore centres	9,883,000	660,000	3,694,000	29,363,000	43,600,000
– of which Hong Kong	7,292,000	660,000	3,016,000	26,333,000	37,301,000
Developing Asia-Pacific	47,424,000	657,000	1,526,000	8,783,000	58,390,000
– of which China	31,758,000	657,000	1,526,000	6,745,000	40,686,000

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 2022	31 March 2022	31 December 2021	30 September 2021	30 June 2021
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	30,870,615	31,221,077	32,124,445	31,768,982	31,100,458
2	Tier 1	30,870,615	31,221,077	32,124,445	31,768,982	31,100,458
3	Total capital	36,597,182	36,930,421	37,828,854	37,475,769	36,797,943
Risk Weighted Amounts (RWA)						
4	Total RWA	170,617,169	175,706,888	176,262,604	178,130,531	178,790,004
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	18.1%	17.8%	18.2%	17.8%	17.4%
6	Tier 1 ratio (%)	18.1%	17.8%	18.2%	17.8%	17.4%
7	Total capital ratio (%)	21.4%	21.0%	21.5%	21.0%	20.6%
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)	N/A	N/A	N/A	N/A	N/A
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 (%)	12.1%	11.8%	12.2%	11.8%	11.4%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	242,454,957	247,021,195	243,146,840	247,651,760	241,395,524
14	LR (%)	12.7%	12.6%	13.2%	12.8%	12.9%
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 (%)	56.8%	60.0%	61.2%	61.0%	61.1%
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 (%)	224.0%	236.7%	240.5%	236.1%	230.2%

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 30 June 2022 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 Group uses the standardised approach to calculate the risk-weighted assets for its credit risk and market risk exposures, and the basic indicator approach to calculate its operational risk capital charge. The Group operates subsidiaries in different countries where capital is governed by local rules and there may be restrictions on the transfer of funds or regulatory capital between members of the Group.

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 2022.

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	37,514,795	37,513,412	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(1,826)	(1)
Placements with banks	21,336,379	21,336,379	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(1,059)	(2)
Loans and advances to customers	96,845,109	96,845,109	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(435,001)	(3)
Financial assets at fair value through profit or loss	862,122	821,058	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		3,929	(4)
Derivative financial instruments	771,387	771,387	
Investment securities at fair value through other comprehensive income	66,087,313	66,087,313	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		274,876	(5)
Investment securities at amortised cost	1,976,081	1,976,081	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(47)	(6)
Properties for sale	695,914	695,914	
Investments in associates and joint venture	449,192	188,000	
Investments in and amounts due from subsidiaries	–	320,545	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(17,653)	(7)
Properties and equipment	2,492,733	2,491,676	
Investment properties	998,225	1,027,157	
Deferred income tax assets	383,363	386,326	(8)
Other assets	2,359,786	2,279,136	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(3,372)	(9)
Total assets	232,772,399	232,739,493	

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	8,302,040	8,302,040	
Deposits from customers	184,003,544	184,003,544	
Derivative financial instruments	669,660	669,660	
Amounts due to subsidiaries	–	616,635	
Subordinated debts	4,298,361	4,298,361	(10)
Other liabilities	2,272,733	2,118,225	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		30,296	(11)
Current income tax liabilities	249,054	248,528	
Deferred income tax liabilities	5,241	5,200	
Total liabilities	199,800,633	200,262,193	
Equity			
Share capital	2,000,000	2,000,000	(12)
Retained earnings	22,545,035	22,110,584	(13)
Reserves	8,327,933	8,366,716	
<i>of which: accumulated other comprehensive income/(loss), other than regulatory reserve</i>		7,427,764	(14)
<i>regulatory reserve</i>		938,952	(15)
Non-controlling interests in equity	98,798	–	
Total equity	32,971,766	32,477,300	
Total equity and liabilities	232,772,399	232,739,493	

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 2022 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	22,110,584	(13)
3	Disclosed reserves	8,366,716	(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	32,477,300	
CET1 capital: regulatory deductions			
7	Valuation adjustments	2,602	
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)	386,326	(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)	278,805	(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	938,952	
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	938,952	(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	1,606,685	
29	CET1 capital	30,870,615	
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)	30,870,615	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	4,298,361	(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	1,428,206	(11) + (15) – (1) – (2) – (3) – (6) – (7) – (9)
51	Tier 2 capital before regulatory deductions	5,726,567	

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	5,726,567	
59	Total regulatory capital (TC = Tier 1 + Tier 2)	36,597,182	
60	Total risk weighted assets	170,617,169	
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	18.1%	
62	Tier 1 capital ratio	18.1%	
63	Total capital ratio	21.4%	
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	–	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	12.1%	
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	3,071,307	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	691,590	
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)	1,428,206	
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	1,929,429	
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)	386,326	–
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>			

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 2022 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/20220630.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\$1,953 million	HK\$2,346 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

REGULATORY DISCLOSURES (UNAUDITED)

3 Overview of RWA

The table below shows the breakdowns of RWA for various risks as at 30 June 2022 and 31 March 2022 and the minimum capital requirements as at 30 June 2022 which are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		30 June 2022	31 March 2022	30 June 2022
1	Credit risk for non-securitization exposures	150,660,940	152,479,118	12,052,875
2	Of which STC approach	150,660,940	152,479,118	12,052,875
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	1,964,366	1,807,781	157,149
7	Of which SA-CCR approach	1,964,366	1,807,781	157,149
7a	Of which CEM	–	–	–
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	366,025	345,838	29,282
11	Equity positions in banking book under the simple risk-weight method and internal models method	–	–	–
12	Collective investment scheme ("CIS") exposures – LTA	N/A	N/A	N/A
13	CIS exposures – MBA	N/A	N/A	N/A
14	CIS exposures – FBA	N/A	N/A	N/A
14a	CIS exposures – combination of approaches	N/A	N/A	N/A
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	6,419,288	9,516,875	513,543
21	Of which STM approach	6,419,288	9,516,875	513,543
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)	N/A	N/A	N/A
24	Operational risk	9,477,575	9,664,613	758,206
24a	Sovereign concentration risk	–	–	–
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,728,975	1,892,663	138,318
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	170,617,169	175,706,888	13,649,373

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 2022.

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%	76,318,173		
	Sum		76,318,173		
	Total		120,134,421	0.6%	1,083,419

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 2022.

Item	Value under the LR framework
1 Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	233,371,526
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(32,906)
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	1,779,504
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)	9,542,645
6a Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure	(601,729)
7 Other adjustments	(1,604,083)
8 Leverage ratio exposure measure	242,454,957

The leverage ratios as at 30 June 2022 and 31 March 2022 are shown below:

	30 June 2022	31 March 2022
On-balance sheet exposures		
1 On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	232,567,233	237,301,099
2 Less: Asset amounts deducted in determining Tier 1 capital	(1,606,685)	(1,685,395)
3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)	230,960,548	235,615,704
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)	288,066	168,031
5 Add-on amounts for PFE associated with all derivative contracts	2,262,825	2,167,759
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	2,550,891	2,335,790

REGULATORY DISCLOSURES (UNAUDITED)

5 Leverage ratio (Continued)

		30 June 2022	31 March 2022
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	46,525,221	47,604,364
18	Less: Adjustments for conversion to credit equivalent amounts	(36,982,576)	(37,940,931)
19	Off-balance sheet items	9,542,645	9,663,433
Capital and total exposures			
20	Tier 1 capital	30,870,615	31,221,077
20a	Total exposures before adjustments for specific and collective provisions	243,054,084	247,614,927
20b	Adjustments for specific and collective provisions	(599,127)	(593,732)
21	Total exposures after adjustments for specific and collective provisions	242,454,957	247,021,195
Leverage ratio			
22	Leverage ratio	12.7%	12.6%

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 2022

	Gross carrying amounts of			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
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	596,126	96,793,856	544,873	109,872	435,001	–	96,845,109
2	Debt securities	–	64,568,010	47	–	47	–	64,567,963
3	Off-balance sheet exposures	–	13,330,538	10,208	–	10,208	–	13,320,330
4	Total	596,126	174,692,404	555,128	109,872	445,256	–	174,733,402

(b) Changes in defaulted loans and debt securities

	Amount	
1	Defaulted loans and debt securities as at end December 2021	107,092
2	Loans and debt securities that have defaulted since the last reporting period	515,884
3	Returned to non-defaulted status	–
4	Amounts written off	(358)
5	Other changes	(26,492)
6	Defaulted loans and debt securities as at end June 2022	596,126

(c) Overview of recognised credit risk mitigation as at 30 June 2022

	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	94,963,761	1,881,348	1,699,181	182,167	–
2	Debt securities	64,567,963	–	–	–	–
3	Total	159,531,724	1,881,348	1,699,181	182,167	–
4	Of which defaulted	2,974	510,559	510,559	–	–

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 2022

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	10,139,950	–	10,196,426	–	120,691	1%
2 PSE exposures	3,546,283	250,000	3,489,807	125,000	676,097	19%
2a Of which: domestic PSEs	3,311,960	250,000	3,255,484	125,000	676,097	20%
2b Of which: foreign PSEs	234,323	–	234,323	–	–	–
3 Multilateral development bank exposures	1,298,287	–	1,298,287	–	–	–
4 Bank exposures	83,804,830	2,782,503	83,985,332	821,582	29,938,122	35%
5 Securities firm exposures	194,610	3,263,014	194,610	–	97,305	50%
6 Corporate exposures	104,521,524	28,293,497	103,636,690	4,105,750	99,454,894	92%
7 CIS exposures	–	–	–	–	–	–
8 Cash items	800,292	–	1,988,914	–	198,371	10%
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	3,538,859	2,434,511	3,435,905	115,767	2,663,755	75%
11 Residential mortgage loans	7,711,439	2,021,211	7,709,268	1,008,035	4,092,722	47%
12 Other exposures which are not past due exposures	13,236,085	7,480,485	12,856,920	47,043	12,903,963	100%
13 Past due exposures	513,533	–	513,533	–	515,020	100%
14 Significant exposures to commercial entities	–	–	–	–	–	–
15 Total	229,305,692	46,525,221	229,305,692	6,223,177	150,660,940	64%

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2022

(All amounts in HK dollar thousands unless otherwise stated)

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 2022

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	9,592,970	-	603,456	-	-	-	-	-	-	-	-	10,196,426
2 PSE exposures	234,323	-	3,380,484	-	-	-	-	-	-	-	-	3,614,807
2a Of which: domestic PSEs	-	-	3,380,484	-	-	-	-	-	-	-	-	3,380,484
2b Of which: foreign PSEs	234,323	-	-	-	-	-	-	-	-	-	-	234,323
3 Multilateral development bank exposures	1,298,287	-	-	-	-	-	-	-	-	-	-	1,298,287
4 Bank exposures	-	-	41,563,377	-	43,236,183	-	7,354	-	-	-	-	84,806,914
5 Securities firm exposures	-	-	-	-	194,610	-	-	-	-	-	-	194,610
6 Corporate exposures	-	-	439,084	-	15,872,559	-	91,430,797	-	-	-	-	107,742,440
7 CIS exposures	-	-	-	-	-	-	-	-	-	-	-	-
8 Cash items	1,303,124	-	609,273	-	-	-	76,517	-	-	-	-	1,988,914
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	-	-	-	-	-	3,551,672	-	-	-	-	-	3,551,672
11 Residential mortgage loans	-	-	-	7,046,279	-	178,001	1,493,023	-	-	-	-	8,717,303
12 Other exposures which are not past due exposures	-	-	-	-	-	-	12,903,963	-	-	-	-	12,903,963
13 Past due exposures	-	-	-	-	-	-	510,559	2,974	-	-	-	513,533
14 Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	-
15 Total	12,428,704	-	46,595,674	7,046,279	59,303,352	3,729,673	106,422,213	2,974	-	-	-	235,528,869

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 2022

		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)	249,450	1,582,167		1.4	2,564,264	1,964,366
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						1,964,366

(b) CVA capital charge as at 30 June 2022

		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	2,564,264	366,025
4	Total	2,564,264	366,025

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 2022

Exposure class	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	87,393	-	868,749	-	-	-	-	-	956,142
5	Securities firm exposures	-	-	-	-	2,093	-	-	-	-	-	2,093
6	Corporate exposures	-	-	-	-	189,126	-	617,518	-	-	-	806,644
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	799,385	-	-	-	799,385
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	-	-	87,393	-	1,059,968	-	1,416,903	-	-	-	2,564,264

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 2022

	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	–	142,047	–	145,030	–	–
2 Total	–	142,047	–	145,030	–	–

(e) Credit-related derivatives contracts

The Group did not have any credit-related derivatives contracts as at 30 June 2022.

(f) Exposures to CCPs

The Group did not have any exposures to CCPs as at 30 June 2022.

8 Market risk

Market risk under STM approach as at 30 June 2022

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	752,463
2	Equity exposures (general and specific risk)	694,100
3	Foreign exchange (including gold) exposures	4,851,000
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	121,725
7	Other approach	–
8	Securitization exposures	–
9	Total	6,419,288

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2022

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURES (UNAUDITED)
9 Non-bank Mainland exposures

The Bank	30 June 2022			31 December 2021		
	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	4,961,530	4,548	4,966,078	6,119,632	5,744	6,125,376
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	10,368,542	952,306	11,320,848	11,427,500	1,408,132	12,835,632
4. Other entities of central government not reported in item 1 above	100,581	–	100,581	96,412	–	96,412
5. Other entities of local governments not reported in item 2 above	160,329	–	160,329	189,795	–	189,795
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	5,087,444	521,147	5,608,591	5,592,311	558,362	6,150,673
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	786,726	426	787,152	891,280	–	891,280
Total	21,465,152	1,478,427	22,943,579	24,316,930	1,972,238	26,289,168
Total assets after provision	220,815,108			220,362,505		
On-balance sheet exposures as percentage of total assets	9.72%			11.03%		

REGULATORY DISCLOSURES (UNAUDITED)

10 Currency concentrations

As at 30 June 2022

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	92,396,000	(89,278,000)	49,815,000	(46,077,000)	(21,000)	6,835,000	13,430,000
Pound Sterling	8,259,000	(5,569,000)	2,739,000	(5,418,000)	8,000	19,000	29,000
Euro Dollars	1,732,000	(1,660,000)	1,203,000	(1,187,000)	(63,000)	25,000	–
Renminbi	23,058,000	(22,591,000)	6,504,000	(6,364,000)	(65,000)	542,000	4,156,000
Canadian Dollars	1,423,000	(1,424,000)	84,000	(147,000)	61,000	(3,000)	–
Australian Dollars	2,523,000	(2,631,000)	2,375,000	(2,249,000)	16,000	34,000	–
Other currencies and gold	3,049,000	(1,466,000)	8,330,000	(9,856,000)	64,000	121,000	–
	132,440,000	(124,619,000)	71,050,000	(71,298,000)	–	7,573,000	17,615,000

As at 31 December 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	99,377,000	(79,689,000)	22,560,000	(22,773,000)	161,000	19,636,000	1,919,000
Pound Sterling	7,758,000	(5,858,000)	2,495,000	(4,434,000)	4,000	(35,000)	64,000
Euro Dollars	1,550,000	(1,555,000)	736,000	(721,000)	(44,000)	(34,000)	–
Renminbi	24,218,000	(22,703,000)	2,791,000	(2,413,000)	(33,000)	1,860,000	5,548,000
Canadian Dollars	1,503,000	(1,539,000)	44,000	(14,000)	(33,000)	(39,000)	–
Australian Dollars	2,608,000	(2,671,000)	1,585,000	(1,566,000)	21,000	(23,000)	–
Other currencies and gold	2,761,000	(1,563,000)	6,302,000	(7,278,000)	(76,000)	146,000	–
	139,775,000	(115,578,000)	36,513,000	(39,199,000)	–	21,511,000	7,531,000

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

Amid the fifth wave of the ongoing COVID-19 epidemic and the corresponding restrictive measures weighing heavily on both general sentiment and a wide range of economic activities, Hong Kong economy saw marked deterioration in the first quarter of 2022 with the real GDP for the first quarter recorded a year-on-year contraction of 4.0%. The second quarter of 2022, however, produced promising numbers when the local unemployment rate fell to 4.7% from 5.1% in the three months ending May 2022, which reflected improvement of the local pandemic situation and further relaxation of social distancing restrictions. The labour market continued to be challenging, in view of talent shortages. Despite external price pressures, overall local inflation had stayed moderate with an annual inflation rate at 1.2% in May 2022, however, the situation is expected to intensify in light of elevated inflation levels at primary import sources.

For the first six months ended 30 June 2022, the consolidated profit after tax of Shanghai Commercial Bank Limited (the "Bank") was HK\$1,251 million, a decrease of HK\$195 million or 13.5%, mainly attributable to a lackluster performance in net fee and commission income which decreased by 23.7% year-on-year, as customers' securities and investment activities shrank under weakened investor sentiment. Net interest income also dropped by 3.8% as interest costs of customer deposits and interbank funding climbed while interest income from interest-bearing assets remained flat due to the deployment of assets to the higher quality and shorter tenor spectrums. Contribution from our Treasury operation increased year-on-year, thanks to an outstanding performance on foreign exchange income that was moderated by lower disposal gains from the debt securities portfolio and mark-to-market loss from equity trading.

The overall loan-to-deposit ratio rose slightly from 52.5% at the end of 2021 to 52.9% at the end of June 2022 as loans and advances grew by 1% to HK\$97.4 billion while total customer deposits increased by merely 0.2% to HK\$184 billion during the period.

The Bank's total expenses were 2.7% higher than that for the first half of last year, and the average cost-to-income ratio for the period rose to 35.7% from 32.6% for the same period last year.

Total comprehensive loss attributable to equity holders for the first half of 2022 amounted to HK\$939 million, versus a total comprehensive income of HK\$1,500 million for the same period last year, mainly due to the unrealized mark-to-market valuation losses on the Bank's debt securities portfolio and equity investments following the surge in market interest rates and the increased volatility of stock markets in the Greater China region. However, the Bank's debt securities portfolio continues to provide a stable stream of interest income and is maintained at high credit quality with most holdings maturing within three years.

At the end of June 2022, the Bank's total assets marginally decreased by 0.5% to HK\$233 billion and shareholders' funds dropped by 3.7% to HK\$32.9 billion when compared with that as at the end of 2021. Returns on average total assets and average equity for the first half of 2022 were 1.1% and 7.5% 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 2022 at 21.4% and 18.1% respectively and the average liquidity maintenance ratio for the period at 58.4%.

Highlights of Business Performance

The Bank has been navigating a particularly challenging and volatile business environment, marked by the ongoing pandemic, increased geopolitical tensions, supply chain disruptions and global inflation pressures. As a result, fee-based activities retreated and lending momentum was soft, adversely affecting both net interest income and non-interest income. Under the circumstances, the Bank had adopted a more cautious approach to ensure sound credit quality on both corporate and retail exposures, whether locally or overseas. Deposit balances grew slightly, with an increase in interest expenses observed that was in line with the market. Amidst the increasing trend of interest rate hikes in advanced economies around the world, particularly since the first quarter of 2022, the Bank continued to embrace balance between loan pricing and cost of funds, thus contributing positively to net interest income. At the same time, a long term strategic development in the Greater Bay Area has begun with the launch of Wealth Management Connect in early 2022.

In terms of our Treasury business, the Bank has continued to expand and diversify our customer base by providing new products to serve customers' investment and hedging needs. During the first half of 2022, foreign exchange income from customer transactions and Treasury operations recorded satisfactory year-on-year growth. However, equity trading revenue and disposal gain from bond investments diminished as interest rate hikes triggered massive sell-offs in risky assets globally during the period. US bond yields shot up sharply in response to 40-year high US CPI figures, pushing the Federal Reserve to deliver substantial interest rate hikes to address inflation. Global markets are intermittently pivoting between combatting inflation and avoiding recession, thereby increasing volatility in bond prices. Our Bank's strategy is thus to rein in bond purchases and direct the majority of the cash flows as bonds matured to money market lending or high quality short term sovereign debts in order to better manage capital adequacy and avoid undue mark-to-market volatility of our bond portfolio, while benefitting from higher short-end rates during an expected rate hike cycle.

REVIEW OF OPERATIONS

Highlights of Business Performance (Continued)

To build best-in-class capabilities in the digital sphere, our Digital Transformation is a high priority for the Bank. In February 2022, we launched our new mobile banking app “Shacom Business” to enable Corporate and SME customers to enjoy a more streamlined and safer digital business banking experience. Meanwhile, the Bank is also looking into opportunities to participate in various fintech projects in the future through our transformation journey.

Our redevelopment project at Catchick Street in West Point, Hong Kong, has been impacted in part due to pandemic-related slowdown in supply chain and is scheduled for completion in the second half of 2023, while the sale of the residential portion on a strata-titled basis will kick off in the second half of 2022.

Sustainability

To be a trusted bank in issues of sustainability, the Bank has been engaging employees and customers through various initiatives to raise their awareness on the subject area. Our Environmental, Social and Governance (“ESG”) and Green and Sustainable Banking (“GSB”) initiatives will promote sustainability through integrating our sustainable operations, culture and business together with our stakeholders and the community. A Sustainability Working Group is now collaborating with the Board-level Sustainability Committee to drive the Bank’s sustainability strategies and policies, identifying climate-related risks and opportunities, and working with relevant stakeholders to embed sustainable practices in the Bank’s day-to-day business operations. With the relevant controls, systems and personnel in place to mitigate risk and strengthen resilience, we continue to demonstrate our firm commitment to carbon neutrality through the ongoing development of green banking solutions, expanding our range of sustainability-related investment products, adopting energy-saving measures within our various bank premises, exploring further green lending opportunities to customers and optimizing our digitalization trajectory to serve as yet another component of our multifaceted sustainability efforts. Despite the uncertainties of the COVID-19 pandemic, the Bank will continue to deepen our community investments on various fronts, including providing resources and valuable manpower to targeted and charitable activities and educational opportunities, and advocating for causes that advance community sustainability in a meaningful manner.

Bank Culture

2022 marks the sixth year of the Bank’s culture reform. Recognizing that a successful Digital Transformation stems from our staff adoption of new ways of working, we have launched a bank-wide Change Management Workshop to encourage readiness and willingness to innovate and adopt new technology and to develop the necessary skills for fintech and data literacy. To equip our staff with updated knowledge on ESG and climate change issues and to emphasize sustainability, we have launched a wide range of interactive programmes that include video learning, friendly competition, volunteer and engagement opportunities that are designed specifically to increase understanding of and commitment to green work habits and lifestyles. We also conducted a second feedback survey in early 2022 and has helped illustrate areas that have worked well in the Bank and encouraged us to examine areas in need of additional emphasis, particularly in areas of culture reform.

Looking Ahead

In light of the expected interest rate hikes, increasing recession fears, geopolitical uncertainties, talent shortage, and public health concerns brought about by COVID-19, we foresee continued challenges in our operating environment. The Bank will continue to stay vigilant and prudent especially on our customers’ credit quality, and explore ESG and GSB related initiatives which have become important strategic areas of growth. We will also maintain our commitment to ongoing investments in our people and Digital Transformation to better serve our customers. The Bank will also strive to ensure steady development in all business lines in response to market changes with regulatory compliance staying equally top of mind.

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 & Chief Executive

Hong Kong, 24 August 2022

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 2022 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 notes, comprising significant accounting policies and other explanatory information. 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, 24 August 2022