上海商業銀行
SHANGHAI COMMERCIAL BANK

# LIQUIDITY MAINTENANCE RATIO

Six months ended 30th June 2016

**Liquidity maintenance ratio**

| | **30th June 2016** | 30th June 2015 |
|---|---|---|
| Liquidity maintenance ratio ('LMR') | **50.5%** | 46.5% |

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

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

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

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

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

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