上海商業銀行
SHANGHAI COMMERCIAL BANK

2019

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 2019

Contents

Welcome to Shanghai Commercial Bank Limited's website

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**Six months ended 30 June 2019 (unaudited)**	Six months ended 30 June 2018 (unaudited)
Interest income	6	**3,224,525**	2,545,781
Interest expense	6	**(1,292,439)**	(789,969)
Net interest income		**1,932,086**	1,755,812
Fee and commission income	7	**464,822**	472,278
Fee and commission expense	7	**(27,071)**	(27,236)
Net fee and commission income		**437,751**	445,042
Net trading income	8	**134,251**	68,309
Net gains from disposal of investment securities at fair value through other comprehensive income		**24,830**	18,864
Dividend income from investment securities at fair value through other comprehensive income		**168,040**	140,108
Other operating income	9	**78,931**	73,035
Net earned insurance premium	10	**24,583**	22,456
Net insurance claims incurred and movement in policyholders' liabilities	10	**(16,654)**	(10,348)
Operating expenses	11	**(832,294)**	(776,397)
Credit impairment losses	12	**(55,413)**	(17,246)
Operating profit		**1,896,111**	1,719,635
Share of net profits of joint ventures		**24,561**	28,566
Profit before income tax		**1,920,672**	1,748,201
Income tax expense	13	**(359,228)**	(320,020)
Profit for the period		**1,561,444**	1,428,181
Attributable to:			
Equity holders of the Bank		**1,557,900**	1,426,215
Non-controlling interests		**3,544**	1,966
		1,561,444	1,428,181

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Six months ended 30 June 2019 (unaudited)**	Six months ended 30 June 2018 (unaudited)
Profit for the period		**1,561,444**	1,428,181
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of overseas operations		**(11,370)**	(19,811)
Investment securities at fair value through other comprehensive income			
– Changes in fair value		**458,547**	(149,651)
– Credit impairment losses recognised in profit or loss		**(722)**	149
– Fair value changes transferred to profit or loss on disposal		**(24,830)**	(18,864)
– Deferred income tax	25	**(71,563)**	27,804
Share of reserves of joint ventures	26	**11,498**	(9,581)
Items that will not be reclassified to profit or loss			
Equity investments at fair value through other comprehensive income			
– Changes in fair value		**124,180**	244,409
– Currency translation difference		**(3,919)**	(33,382)
– Deferred income tax	25	**(7,249)**	407,585
Share of reserves of joint ventures	26	**(13)**	14
Other comprehensive income for the period, net of tax		**474,559**	448,672
Total comprehensive income for the period		**2,036,003**	1,876,853
Attributable to:			
Equity holders of the Bank		**2,032,429**	1,875,016
Non-controlling interests		**3,574**	1,837
Total comprehensive income for the period		**2,036,003**	1,876,853

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2019 (unaudited)**	31 December 2018 (audited)
ASSETS			
Cash and balances with banks	14	**32,649,621**	28,608,498
Placements with banks	15	**6,146,680**	8,643,722
Loans and advances to customers	16	**97,705,656**	86,725,546
Financial assets at fair value through profit or loss		**1,946,347**	1,858,984
Derivative financial instruments	17	**256,651**	313,320
Investment securities at fair value through other comprehensive income		**67,573,497**	63,399,110
Investment securities at amortised cost		**2,445,200**	2,413,650
Properties for sale	18	**430,096**	416,346
Investments in joint ventures		**422,358**	388,447
Right-of-use assets	19	**318,587**	–
Properties and equipment	20	**2,308,457**	2,332,709
Investment properties	21	**1,021,502**	1,025,892
Deferred income tax assets	25	**15,052**	72,193
Other assets		**2,132,286**	1,421,495
TOTAL ASSETS		**215,371,990**	197,619,912
LIABILITIES			
Deposits and balances from banks		**11,957,652**	10,344,988
Deposits from customers	22	**166,775,033**	154,614,718
Derivative financial instruments	17	**263,418**	305,731
Subordinated debts	24	**4,270,028**	1,945,079
Lease liabilities		**331,714**	–
Other liabilities		**2,462,013**	2,416,189
Current income tax liabilities		**294,335**	91,316
Deferred income tax liabilities	25	**26,209**	27
TOTAL LIABILITIES		**186,380,402**	169,718,048
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital		**2,000,000**	2,000,000
Retained earnings		**15,820,376**	15,317,380
Reserves	26	**11,087,177**	10,503,623
		28,907,553	27,821,003
Non-controlling interests in equity		**84,035**	80,861
TOTAL EQUITY		**28,991,588**	27,901,864
TOTAL EQUITY AND LIABILITIES		**215,371,990**	197,619,912

(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 2018		2,000,000	10,028,070	13,430,081	76,990	25,535,141
Profit for the period		–	–	1,426,215	1,966	1,428,181
Other comprehensive income (net of tax)						
Investment securities at fair value through other comprehensive income		–	478,179	–	(129)	478,050
Currency translation difference arising from overseas operations		–	(25,035)	5,224	–	(19,811)
Share of reserves of joint ventures		–	(9,567)	–	–	(9,567)
Total other comprehensive income		–	443,577	5,224	(129)	448,672
Payment of dividend relating to 2017		–	–	(940,000)	(400)	(940,400)
As at 30 June 2018 (unaudited)		2,000,000	10,471,647	13,921,520	78,427	26,471,594
As at 31 December 2018 as originally presented		**2,000,000**	**10,503,623**	**15,317,380**	**80,861**	**27,901,864**
Change in accounting policy	3	**–**	**–**	**(5,879)**	**–**	**(5,879)**
As at 1 January 2019		**2,000,000**	**10,503,623**	**15,311,501**	**80,861**	**27,895,985**
Profit for the period		**–**	**–**	**1,557,900**	**3,544**	**1,561,444**
Other comprehensive income (net of tax)						
Investment securities at fair value through other comprehensive income	26	**–**	**474,414**	**–**	**30**	**474,444**
Currency translation difference arising from overseas operations	26	**–**	**(2,345)**	**(9,025)**	**–**	**(11,370)**
Share of reserves of joint ventures	26	**–**	**11,485**	**–**	**–**	**11,485**
Total other comprehensive income		**–**	**483,554**	**(9,025)**	**30**	**474,559**
Transfer from retained earnings	26	**–**	**100,000**	**(100,000)**	**–**	**–**
Payment of dividend relating to 2018		**–**	**–**	**(940,000)**	**(400)**	**(940,400)**
As at 30 June 2019 (unaudited)		**2,000,000**	**11,087,177**	**15,820,376**	**84,035**	**28,991,588**

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Six months ended 30 June 2019 (unaudited)**	Six months ended 30 June 2018 (unaudited)
Cash flows from operating activities			
Profit before income tax		**1,920,672**	1,748,201
Share of net profits of joint ventures		**(24,561)**	(28,566)
Credit impairment losses	12	**55,413**	17,246
Depreciation expenses	11	**116,537**	52,003
Net (gains)/losses from disposal of equipment	9	**(46)**	2,840
Net gains from disposal of investment securities at fair value through other comprehensive income		**(24,830)**	(18,864)
Interest income on investment securities at amortised cost	6	**(20,101)**	(11,995)
Interest income on investment securities at fair value through other comprehensive income	6	**(864,622)**	(640,610)
Interest expense on subordinated debts	6	**91,789**	37,442
Interest expense on lease liabilities	6	**6,270**	–
Dividend income		**(168,040)**	(140,108)
Hong Kong profits tax paid		**(1,631)**	(284,829)
Overseas tax paid		**(176,019)**	(133,297)
Effect of exchange rate changes		**98,290**	175,893
Cash flows from operating activities before changes in operating assets and liabilities		**1,009,121**	775,356
Changes in operating assets and liabilities:			
– Net decrease in balances with banks with original maturity beyond 3 months		**155,886**	2,606,220
– Net decrease in placements with banks with original maturity beyond 3 months		**3,391,555**	2,659,736
– Net (increase)/decrease in financial assets at fair value through profit or loss		**(87,363)**	139,970
– Net decrease in derivative financial instruments		**14,356**	147
– Net increase in loans and advances to customers		**(11,032,828)**	(5,561,365)
– Net increase in right-of-use assets		**(32,238)**	–
– Net increase in other assets		**(465,216)**	(346,417)
– Net increase in deposits and balances from banks		**1,612,664**	815,502
– Net increase in deposits from customers		**12,160,315**	1,342,829
– Net increase in lease liabilities		**32,214**	–
– Net (decrease)/increase in other liabilities		**(6,957)**	287,765
Net cash flows from operating activities		**6,751,509**	2,719,743

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Six months ended 30 June 2019 (unaudited)**	Six months ended 30 June 2018 (unaudited)
Cash flows from investing activities			
Interest received on investment securities at amortised cost and fair value through other comprehensive income		**773,434**	626,097
Dividends received on investment securities at fair value through other comprehensive income		**2,949**	2,760
Dividends received from joint ventures		**2,135**	6,370
Purchases of properties and equipment		**(25,366)**	(26,404)
Additions of investment properties		**(57)**	(572)
Additions of properties for sale		**(13,750)**	(7,387)
Proceeds from sale of equipment		**149**	5
Purchases of investment securities at fair value through other comprehensive income		**(23,277,095)**	(13,963,961)
Purchases of investment securities at amortised cost		**(2,727,473)**	(1,191,032)
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income		**18,233,474**	10,953,661
Proceeds from redemption of investment securities at amortised cost		**3,850,827**	1,153,798
Net cash flows from investing activities		**(3,180,773)**	(2,446,665)
Cash flows from financing activities			
Issue of subordinated debts	27(a)	**2,343,779**	–
Interest paid on subordinated debts		**(36,742)**	(36,910)
Principal elements of lease payments		**(63,632)**	–
Dividend paid to equity holders		**(940,000)**	(940,000)
Dividend paid to non-controlling interests		**(400)**	(400)
Net cash flows from financing activities		**1,303,005**	(977,310)
Net increase/(decrease) in cash and cash equivalents		**4,873,741**	(704,232)
Cash and cash equivalents as at 1 January		**34,702,607**	27,720,636
Effect of exchange rate changes on cash and cash equivalents		**(27,330)**	(46,277)
Cash and cash equivalents as at 30 June	27(b)	**39,549,018**	26,970,127
Cash flows from operating, investing and financing activities included:			
Interest received		**3,183,522**	2,535,158
Interest paid		**(1,138,654)**	(789,704)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

1 General information

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

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong.

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

This Group Interim Financial Disclosure Statement is presented in thousands of units of Hong Kong Dollars (HK$'000), unless otherwise stated and was approved for issue by the Board of Directors on 14 August 2019.

2 Basis of preparation

This Group Interim Financial Disclosure Statement for the six months ended 30 June 2019 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the year ended 31 December 2018 that is included in the 2019 Group Interim Financial Disclosure Statement as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Group has delivered the financial statements for the year ended 31 December 2018 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).

3 Accounting policies

The accounting policies applied in the preparation of the 2019 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 2018, except for the adoption of new standard effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 16 "Leases" ("HKFRS 16") that requires restatement of previous financial statements. As required by HKAS 34, the impact of the adoption is disclosed below.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

Changes in accounting policies

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The classifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.74%.

Set out below are disclosures relating to the impact of the adoption of HKFRS 16 on the Group.

(i) Reconciliation of lease liabilities pursuant to HKFRS 16

Operating lease commitments disclosed as at 31 December 2018	260,670
Discounted using the Group’s incremental borrowing rate of 3.74%	(12,885)
Add: finance lease liabilities recognised as at 31 December 2018	113
(Less): short-term leases recognised on a straight-line basis as expense	(61)
(Less): low-value leases recognised on a straight-line basis as expense	(3,787)
Add: contracts reassessed as lease agreements	12,701
Add: adjustments as a result of a different treatment of extension and termination options	100,522
Lease liabilities recognised as at 1 January 2019	357,273
Of which are:	
Current lease liabilities	108,920
Non-current lease liabilities	248,353
	357,273

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

Changes in accounting policies (Continued)

(i) Reconciliation of lease liabilities pursuant to HKFRS 16 (Continued)

The change in accounting policy affected the following items in the consolidated statement of financial position as at 1 January 2019:

Right-of-use assets	
– Buildings	334,714
– Equipment	14,756
– Motor vehicles	219
	349,689
Deferred income tax assets	1,497
Effect on total assets	**351,186**
Retained earnings	(5,879)
Lease liabilities	357,273
Other liabilities	(208)
Effect on total equity and liabilities	**351,186**

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(ii) Accounting policies applied from 1 January 2019

The Group's leasing activities and how these are accounted for

The Group leases various properties, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost (i.e. interest on lease liabilities). The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies (Continued)

Changes in accounting policies (Continued)

(ii) Accounting policies applied from 1 January 2019 (Continued)

The Group's leasing activities and how these are accounted for (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
– fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:
– the amount of the initial measurement of lease liabilities;
– any lease payments made at or before the commencement date less any lease incentives received;
– any initial direct costs; and
– restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

The accounting for leasehold land previously classified as finance lease remains the same. Amortisation for leasehold land commences from the time when the land interest becomes available for its intended use. Interest in leasehold land is amortised on a straight-line basis over the unexpired period of the lease term.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Where the Group is a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature.

<u>Critical judgements in determining the lease term</u>

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, no revisions were made to the lease terms to reflect the effect of exercising extension and termination options.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

4 Estimates

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

In preparing this Group Interim Financial Disclosure Statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018, except for critical judgements in determining the lease term. Please refer to Note 3 for details.

5 Basis of consolidation

(a) Subsidiaries

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

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

5 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

The following is a list of the subsidiaries as at 30 June 2019:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	30 June 2019 Total assets	30 June 2019 Total equity	31 December 2018 Total assets	31 December 2018 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]	**15,229**	**14,924**	15,138	14,948
Shacom Futures Limited	Hong Kong	Commodities trading Hong Kong	150,000 ordinary shares	100%[1]	**38,732**	**10,280**	46,919	11,108
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	100%[1]	**2,651,718**	**16,513**	2,600,944	1,448
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US$1 each	100%[1]	**35,885**	**1,843**	35,706	1,555
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	100%[1]	**5,644**	**5,644**	5,658	5,658
Shacom Property (CA), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	100%[1]	**2,740**	**2,740**	2,739	2,739
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	100%[1]	**1,048,479**	**63**	1,048,500	77
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	100%[1]	**28,143**	**19,022**	27,273	19,558
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	100%[1]	**5,010**	**1,653**	4,669	1,397
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares	100%[1]	**275,598**	**162,279**	187,043	162,128
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	100%[1]	**810**	**535**	792	517
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	60%[2]	**315,815**	**195,171**	298,633	186,795
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%[1]	**2**	**(137)**	6	(128)
Glory Step Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	**192,368**	**(2,592)**	192,411	(2,556)
Silver Wisdom Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	**294,835**	**(2,846)**	294,871	(2,798)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	**343,112**	**151,953**	341,244	150,040
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	**344,087**	**152,859**	342,221	150,947
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	**346,095**	**154,975**	344,233	153,068

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.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

5 Basis of consolidation (Continued)

(b) Transactions with non-controlling interests

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

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

(c) Joint ventures

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

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

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

6 Net interest income

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Interest income		
Cash and balances with banks	**374,046**	366,530
Investment securities at amortised cost	**20,101**	11,995
Investment securities at fair value through other comprehensive income	**864,622**	640,610
Loans and advances to customers	**1,957,176**	1,519,079
Others	**8,580**	7,567
Interest income on financial assets that are not measured at fair value through profit or loss	**3,224,525**	2,545,781
Interest expense		
Deposits and balances from bank	**150,597**	91,133
Deposits from customers	**1,038,993**	657,541
Subordinated debts	**91,789**	37,442
Lease liabilities	**6,270**	–
Others	**4,790**	3,853
Interest expense on financial liabilities that are not measured at fair value through profit or loss	**1,292,439**	789,969

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

7 Net fee and commission income

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Fee and commission income		
Bills	**44,419**	47,319
Nominees, custodian and securities brokerage	**89,781**	138,204
Investment products	**69,947**	94,501
Remittance	**30,224**	30,818
Facility fees	**156,328**	77,586
Credit cards	**25,452**	23,062
Retail banking	**23,528**	25,523
Insurance	**19,320**	30,784
Loans and advances	**3,898**	2,759
Trust and other commissions	**1,925**	1,722
	464,822	472,278
Fee and commission expense		
Bills	**5,412**	3,952
Nominees, custodian and securities brokerage	**6,745**	8,682
Retail banking	**14,868**	14,527
Credit cards	**32**	29
Remittance	**14**	46
	27,071	27,236
Of which:		
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at fair value through profit or loss		
– fee and commission income	**230,097**	150,726
– fee and commission expense	**5,444**	3,981
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	**11,033**	10,645

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

8 Net trading income

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Foreign exchange	**114,182**	85,273
Interest rate instruments	**14,103**	(16,464)
Equities	**1,729**	(179)
Other trading income/(loss)	**4,237**	(321)
	134,251	68,309

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

9 Other operating income

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Gross rental income from investment properties	**41,583**	38,379
Net gains/(losses) from disposal of equipment	**46**	(2,840)
Others	**37,302**	37,496
	78,931	73,035

There were no direct operating expenses arising from investment properties for the six months ended 30 June 2019 and 2018.

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

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Insurance premium revenue	**30,608**	28,409
Insurance premium ceded to reinsurers	**(6,025)**	(5,953)
	24,583	22,456

The related net insurance claims incurred and movement in policyholders' liabilities of HK$16,654,000 (six months ended 30 June 2018: HK$10,348,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK$1,138,000 (six months ended 30 June 2018: HK$3,731,000).

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

11 Operating expenses

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Auditor's remuneration		
Audit services (Note a)	**4,971**	4,484
Non-audit and other services (Note b)	**2,252**	2,626
Advertising costs	**12,619**	12,437
Depreciation expenses	**116,537**	52,003
Employee benefit expenses		
Wages and salaries and other costs (Note c)	**466,847**	423,232
Pension costs – defined contribution schemes	**33,764**	32,464
Premises and equipment expenses, excluding depreciation		
Rental of premises	**3,174**	61,026
Building expenses	**19,069**	15,502
Other operating expenses		
Computer rental and licence	**14,209**	13,381
Credit card business promotion	**14,625**	15,219
Credit card service fee	**6,773**	6,484
Insurance	**6,887**	3,437
Legal and consultancy	**4,542**	29,579
Postage	**7,585**	7,944
Printing and stationery	**4,778**	5,264
Repair and maintenance	**15,583**	12,848
Telephone and communications	**14,793**	15,638
Travelling and transportation	**3,934**	3,906
Water, heat and light	**8,539**	8,428
Others	**70,813**	50,495
	832,294	776,397

Note a: 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.

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

Note c: Employee benefit expenses include directors' emoluments. The number of employees of the Group as at 30 June 2019 was 1,809 (30 June 2018: 1,769).

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

12 Credit impairment losses

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Loans and advances to customers	**53,393**	17,154
Balances with banks and placements with banks	**(192)**	(376)
Investment securities	**(720)**	163
Other assets	**355**	391
Loan commitments and financial guarantee contracts	**2,577**	(86)
	55,413	17,246

13 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits for the six months ended 30 June 2019. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2019 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 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Current income tax:		
– Hong Kong profits tax	**215,724**	207,041
– Overseas taxation	**138,140**	115,336
– Over provisions in respect of prior years	**(483)**	(4,244)
Total current income tax	**353,381**	318,133
Deferred income tax:		
– Hong Kong deferred tax	**(3,497)**	(2,684)
– Overseas deferred tax	**9,344**	4,571
Total deferred income tax	**5,847**	1,887
Income tax expense	**359,228**	320,020

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

14 Cash and balances with banks

	30 June 2019 (unaudited)	31 December 2018 (audited)
Cash in hand	**331,069**	357,611
Balances with central banks and Hong Kong Monetary Authority ("HKMA")	**1,495,236**	3,040,697
Balances with banks	**30,823,742**	25,210,725
	32,650,047	28,609,033
Less: Stage 1 impairment allowances	**(426)**	(535)
	32,649,621	28,608,498

Included in the above amounts, HK$254,604,000 (31 December 2018: HK$257,677,000) were deposited in central banks or designated banks as at 30 June 2019, to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business.

15 Placements with banks

	30 June 2019 (unaudited)	31 December 2018 (audited)
Placements with banks maturing between 1 and 12 months	**6,146,761**	8,643,886
Less: Stage 1 impairment allowances	**(70)**	(164)
Less: Stage 2 impairment allowances	**(11)**	–
	6,146,680	8,643,722

Included in the above amounts, HK$370,004,000 (31 December 2018: HK$370,697,000) were deposited with designated banks in the People's Republic of China as at 30 June 2019, to comply with the local statutory requirements.

16 Loans and advances to customers

	30 June 2019 (unaudited)	31 December 2018 (audited)
Gross loans and advances to customers	**98,117,758**	87,088,260
Less: Impairment allowances		
– Stage 1	**(341,001)**	(279,499)
– Stage 2	**(28,798)**	(51,618)
– Stage 3	**(42,303)**	(31,597)
	97,705,656	86,725,546

The Group accepted listed securities at fair value of HK$3,911,784,000 as at 30 June 2019 (31 December 2018: HK$4,966,306,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

(a) Loans and advances by industry sector

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

	30 June 2019 (unaudited)		31 December 2018 (audited)	
	Gross loans and advances (excluding trade bills and other eligible bills)	**% covered by collateral**	Gross loans and advances (excluding trade bills and other eligible bills)	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**4,942,112**	**48%**	5,354,479	54%
– Property investment	**6,858,501**	**93%**	7,302,076	93%
– Financial concerns	**2,205,096**	**8%**	312,458	79%
– Stockbrokers	**872,289**	**58%**	520,812	75%
– Wholesale and retail trade	**2,312,714**	**42%**	3,201,529	30%
– Manufacturing	**1,378,238**	**67%**	1,494,476	66%
– Transport and transport equipment	**367,968**	**93%**	279,852	89%
– Recreational activities	**320,460**	**75%**	255,442	72%
– Information technology – telecommunication	**87,294**	**70%**	89,264	70%
– Hotels, boarding houses and catering	**2,190,942**	**87%**	2,250,871	88%
– Others	**13,885,217**	**59%**	9,185,296	75%
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	**87,998**	**100%**	90,423	100%
– Loans for the purchase of other residential properties	**3,997,771**	**100%**	4,118,120	100%
– Credit card advances	**182,097**	**0%**	203,890	0%
– Others	**6,899,685**	**92%**	6,534,583	96%
Trade finance	**8,439,742**	**65%**	7,494,542	62%
Loans for use outside Hong Kong	**42,466,710**	**85%**	37,946,027	86%
	97,494,834	**76%**	86,634,140	80%

As at 30 June 2019, the Bank did not have exposures to individual industry sector constituting 10% or more of the Group's total amount of loans and advances (31 December 2018: nil).

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

(b) Loans and advances by geographical area

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

As at 30 June 2019 (unaudited)	**Gross loans and advances to customers**	**Stage 3 loans and advances**	**Loans and advances overdue for over 3 months**	**Total Stage 3 impairment allowances**	**Total Stage 1 and Stage 2 impairment allowances**
Hong Kong	**61,670,047**	**507,596**	**408,001**	**21,850**	**303,126**
Mainland China	**8,194,008**	**25,683**	**25,683**	**12,841**	**14,258**
United States	**23,094,346**	**2,659**	**194**	**2,546**	**36,770**
Others	**5,159,357**	**6,314**	**1,052**	**5,066**	**15,645**
	98,117,758	**542,252**	**434,930**	**42,303**	**369,799**
% of total loans and advances to customers		**0.55**			
Fair value of collateral		**1,262,089**			

As at 31 December 2018 (audited)	Gross loans and advances to customers	Stage 3 loans and advances	Loans and advances overdue for over 3 months	Total Stage 3 impairment allowances	Total Stage 1 and Stage 2 impairment allowances
Hong Kong	54,060,032	549,444	421,848	20,374	276,121
Mainland China	6,931,053	35,902	35,902	11,107	10,620
United States	21,160,427	14	14	9	31,912
Others	4,936,748	27,349	18,435	107	12,464
	87,088,260	612,709	476,199	31,597	331,117
% of total loans and advances to customers		0.70			
Fair value of collateral		1,487,205			

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

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

	30 June 2019 (unaudited)		31 December 2018 (audited)	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Gross loans and advances which have been overdue for:				
– 6 months or less but over 3 months	**2,849**	**–**	29,087	0.03
– 1 year or less but over 6 months	**23,370**	**0.02**	9,601	0.01
– over 1 year	**408,711**	**0.42**	437,511	0.51
	434,930	**0.44**	476,199	0.55
Current market value of collateral	**1,020,039**		1,157,462	
Covered portion by collateral	**426,244**		466,168	
Uncovered portion by collateral	**8,686**		10,031	
Stage 3 impairment allowances	**23,344**		18,853	

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 2019 (unaudited)		31 December 2018 (audited)	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	**29,302**	**0.03**	25,810	0.03

(e) Repossessed asset

As at 30 June 2019, the carrying amount and the fair value of the repossessed asset, being a commercial property, amounted to HK$17,319,000 (31 December 2018: nil).

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Derivative financial instruments

		Fair values	
As at 30 June 2019 (unaudited)	**Contract amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Exchange rate contracts	**118,461,587**	**256,651**	**(263,418)**
Total recognised derivative assets/(liabilities)		**256,651**	**(263,418)**

		Fair values	
As at 31 December 2018 (audited)	Contract amount	Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	80,774,024	313,320	(305,731)
Total recognised derivative assets/(liabilities)		313,320	(305,731)

	Credit risk weighted amount	
	30 June 2019 (unaudited)	31 December 2018 (audited)
Exchange rate contracts	**2,037,878**	1,261,899

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

The credit risk weighted amounts as at 30 June 2019 and 31 December 2018 are the amounts that have been calculated in accordance with the Banking (Capital) Rules ("BCR").

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

The Group uses the following derivative strategies:

– Trading purposes (customer needs)

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

– Trading purposes (own account)

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

18 Properties for sale

	30 June 2019 (unaudited)	31 December 2018 (audited)
Property development		
Leasehold land held for development for sale	**382,598**	382,598
Building development cost	**47,498**	33,748
	430,096	416,346

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2019, the net book amount of land and building incurred for this project were HK$537,456,000 (31 December 2018: HK$520,323,000), of which HK$430,096,000 (31 December 2018: HK$416,346,000) were classified as properties for sale while the remaining HK$107,360,000 (31 December 2018: HK$103,977,000) as bank premises under development (Note 20) in accordance with the redevelopment plan.

19 Right-of-use assets

	Buildings	**Equipment**	**Motor Vehicles**	**Total**
Six months ended 30 June 2019				
Opening net book amount	**–**	**–**	**–**	**–**
Change in accounting policy	**334,714**	**14,756**	**219**	**349,689**
Additions	**31,665**	**573**	**–**	**32,238**
Expiry of right-of-use assets				
Cost	**(21,528)**	**–**	**–**	**(21,528)**
Accumulated depreciation	**21,528**	**–**	**–**	**21,528**
Depreciation charge	**(59,353)**	**(3,333)**	**(91)**	**(62,777)**
Exchange adjustments	**(557)**	**–**	**(6)**	**(563)**
Closing net book amount	**306,469**	**11,996**	**122**	**318,587**
As at 30 June 2019 (unaudited)				
Cost	**576,706**	**20,908**	**365**	**597,979**
Accumulated depreciation	**(270,237)**	**(8,912)**	**(243)**	**(279,392)**
Net book amount	**306,469**	**11,996**	**122**	**318,587**

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

20 Properties and equipment

				Property under development		
	Leasehold land	**Bank premises**	**Furniture, fittings and equipment**	**Leasehold land**	**Development cost**	**Total**
As at 1 January 2018						
Cost	1,391,652	1,098,904	827,425	120,244	4,914	3,443,139
Accumulated depreciation	(143,340)	(325,506)	(583,939)	(785)	–	(1,053,570)
Net book amount	1,248,312	773,398	243,486	119,459	4,914	2,389,569
Year ended 31 December 2018						
Opening net book amount	1,248,312	773,398	243,486	119,459	4,914	2,389,569
Additions	–	12,969	51,299	–	4,506	68,774
Transfers to properties for sale						
Cost	–	–	–	(23,966)	(983)	(24,949)
Accumulated depreciation	–	–	–	156	–	156
Disposals/write-off						
Cost	–	(67,371)	(39,895)	–	–	(107,266)
Accumulated depreciation	–	67,371	36,880	–	–	104,251
Depreciation charge	(17,432)	(24,941)	(54,111)	(109)	–	(96,593)
Exchange adjustments	–	(1,102)	(131)	–	–	(1,233)
Closing net book amount	1,230,880	760,324	237,528	95,540	8,437	2,332,709
As at 31 December 2018 (audited)						
Cost	1,391,652	1,042,896	837,144	96,278	8,437	3,376,407
Accumulated depreciation	(160,772)	(282,572)	(599,616)	(738)	–	(1,043,698)
Net book amount	1,230,880	760,324	237,528	95,540	8,437	2,332,709
Six months ended 30 June 2019						
Opening net book amount	**1,230,880**	**760,324**	**237,528**	**95,540**	**8,437**	**2,332,709**
Additions	**–**	**51**	**21,877**	**–**	**3,438**	**25,366**
Disposals/write-off						
Cost	**–**	**–**	**(7,507)**	**–**	**–**	**(7,507)**
Accumulated depreciation	**–**	**–**	**7,404**	**–**	**–**	**7,404**
Depreciation charge	**(8,716)**	**(12,465)**	**(28,077)**	**(55)**	**–**	**(49,313)**
Exchange adjustments	**–**	**(194)**	**(8)**	**–**	**–**	**(202)**
Closing net book amount	**1,222,164**	**747,716**	**231,217**	**95,485**	**11,875**	**2,308,457**
As at 30 June 2019 (unaudited)						
Cost	**1,391,652**	**1,042,619**	**851,383**	**96,278**	**11,875**	**3,393,807**
Accumulated depreciation	**(169,488)**	**(294,903)**	**(620,166)**	**(793)**	**–**	**(1,085,350)**
Net book amount	**1,222,164**	**747,716**	**231,217**	**95,485**	**11,875**	**2,308,457**

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2019, the net book amount of land and building incurred for this project were HK$537,456,000 (31 December 2018: HK$520,323,000), of which HK$430,096,000 (31 December 2018: HK$416,346,000) were classified as properties for sale (Note 18) while the remaining HK$107,360,000 (31 December 2018: HK$103,977,000) as bank premises under development in accordance with the redevelopment plan.

As at 30 June 2019, interests in freehold land outside Hong Kong amounted to HK$33,720,000 (31 December 2018: HK$33,823,000) were included as bank premises above.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

21 Investment properties

	Leasehold land	Buildings	Total
As at 1 January 2018			
Cost	725,305	317,922	1,043,227
Accumulated depreciation	(8,674)	(14,049)	(22,723)
Net book amount	716,631	303,873	1,020,504
Year ended 31 December 2018			
Opening net book amount	716,631	303,873	1,020,504
Additions	–	14,282	14,282
Depreciation charge	(865)	(8,029)	(8,894)
Closing net book amount	715,766	310,126	1,025,892
As at 31 December 2018 (audited)			
Cost	725,305	332,204	1,057,509
Accumulated depreciation	(9,539)	(22,078)	(31,617)
Net book amount	715,766	310,126	1,025,892
Six months ended 30 June 2019			
Opening net book amount	**715,766**	**310,126**	**1,025,892**
Additions	**–**	**57**	**57**
Depreciation charge	**(433)**	**(4,014)**	**(4,447)**
Closing net book amount	**715,333**	**306,169**	**1,021,502**
As at 30 June 2019 (unaudited)			
Cost	**725,305**	**332,261**	**1,057,566**
Accumulated depreciation	**(9,972)**	**(26,092)**	**(36,064)**
Net book amount	**715,333**	**306,169**	**1,021,502**

As at 30 June 2019, the Group's investment properties were valued at HK$3,423,000,000 (31 December 2018: HK$3,625,000,000) by an independent firm of Jones Lang LaSalle Limited (31 December 2018: Cushman & Wakefield Limited), who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The valuations were performed on an open market value basis.

22 Deposits from customers

	30 June 2019 (unaudited)	31 December 2018 (audited)
Demand deposits and current accounts	**18,098,790**	17,545,031
Savings deposits	**43,658,592**	44,211,816
Time, call and notice deposits	**104,627,098**	92,466,346
Deposits from Hong Kong Government Exchange Fund	**390,553**	391,525
	166,775,033	154,614,718

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with 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 was HK$2,443,933,000 (31 December 2018: HK$2,412,583,000) and is classified under Level 1 in the fair value hierarchy. Please refer to Note 23(b) for the definition of fair value hierarchy.

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

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

(v) Subordinated debts

The fair value of subordinated debts of HK$4,441,379,000 (31 December 2018: 1,896,606,000) is classified under Level 2 in the fair value hierarchy.

(b) Fair value hierarchy

Valuation governance

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

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

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

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes instruments such as over-the-counter derivative contracts, unlisted equity securities and unlisted debt securities. Observable parameters that are used as input include market data such as HIBOR and LIBOR yield curves and exchange rate implied volatilities.

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

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

As at 30 June 2019 (unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Debt securities	**42,453**	**1,876,765**	**–**	**1,919,218**
Equity securities	**21,417**	**–**	**6,017**	**27,434**
Others	**(305)**	**–**	**–**	**(305)**
Derivative financial instruments				
Exchange rate contracts	**–**	**256,651**	**–**	**256,651**
Investment securities at fair value through other comprehensive income				
Debt securities	**31,505,614**	**31,596,817**	**2,874**	**63,105,305**
Equity securities	**4,407,849**	**–**	**60,343**	**4,468,192**
Total Assets	**35,977,028**	**33,730,233**	**69,234**	**69,776,495**
Derivative financial instruments				
Exchange rate contracts	**–**	**263,418**	**–**	**263,418**
Total Liabilities	**–**	**263,418**	**–**	**263,418**

As at 31 December 2018 (audited)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	–	1,832,439	–	1,832,439
Equity securities	20,094	–	6,017	26,111
Others	434	–	–	434
Derivative financial instruments				
Exchange rate contracts	–	313,320	–	313,320
Investment securities at fair value through other comprehensive income				
Debt securities	28,707,157	30,340,313	2,874	59,050,344
Equity securities	4,288,351	–	60,415	4,348,766
Total Assets	33,016,036	32,486,072	69,306	65,571,414
Derivative financial instruments				
Exchange rate contracts	–	305,731	–	305,731
Total Liabilities	–	305,731	–	305,731

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

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

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

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

If the significant unobservable inputs would be shifted by +/– 5%, the impact on other comprehensive income would be increased by HK$5,219,000 (31 December 2018: HK$5,219,000) or decreased by HK$4,459,000 (31 December 2018: HK$4,459,000) and profit or loss would be increased/decreased by HK$301,000 (31 December 2018: HK$301,000) respectively.

The following table presents the changes in level 3 instruments for the periods ended 30 June 2019 and 31 December 2018 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 2018	4,369	4,369	29,546	2,874	32,420
Total gains					
– Profit	1,648	1,648	–	–	–
– Other comprehensive income	–	–	19,722	–	19,722
Purchases	–	–	11,100	–	11,100
Settlements	–	–	–	–	–
Exchange adjustments	–	–	47	–	47
As at 31 December 2018 (audited)	6,017	6,017	60,415	2,874	63,289
As at 1 January 2019	**6,017**	**6,017**	**60,415**	**2,874**	**63,289**
Total gains					
– Profit	**–**	**–**	**–**	**–**	**–**
– Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Purchases	**–**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**–**	**–**	**–**
Exchange adjustments	**–**	**–**	**(72)**	**–**	**(72)**
As at 30 June 2019 (unaudited)	**6,017**	**6,017**	**60,343**	**2,874**	**63,217**

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

24 Subordinated debts

	30 June 2019 (unaudited)	31 December 2018 (audited)
US$250 million fixed rate subordinated notes issued due 2027 at amortised cost (Note a)	**1,941,052**	1,945,079
US$300 million fixed rate subordinated notes issued due 2029 at amortised cost (Note b)	**2,328,976**	–
	4,270,028	1,945,079

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 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 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.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

25 Deferred income tax

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

Deferred income tax assets	Impairment allowances	Accelerated tax depreciation	Fair value losses on investment securities at FVOCI	Others	Total
As at 1 January 2018	16,737	(16,508)	31	22,119	22,379
(Charged)/credited to the statement of profit or loss	(2,969)	5,283	–	(375)	1,939
Exchange adjustments	(256)	129	–	17	(110)
Reclassified from/(to) deferred income tax liabilities	52,521	(27,590)	23,054	–	47,985
As at 31 December 2018 (audited)	**66,033**	**(38,686)**	**23,085**	**21,761**	**72,193**
Change in accounting policy	**–**	**–**	**–**	**1,497**	**1,497**
Restated as at 1 January 2019	**66,033**	**(38,686)**	**23,085**	**23,258**	**73,690**
Credited/(charged) to the statement of profit or loss	**5,402**	**(2,350)**	**–**	**(8,899)**	**(5,847)**
Exchange adjustments	**(216)**	**52**	**–**	**3**	**(161)**
Charged to equity	**–**	**–**	**(78,812)**	**–**	**(78,812)**
Reclassified (to)/from deferred income tax liabilities	**(57,272)**	**28,152**	**55,727**	**(425)**	**26,182**
As at 30 June 2019 (unaudited)	**13,947**	**(12,832)**	**–**	**13,937**	**15,052**

Deferred income tax liabilities	Impairment allowances	Accelerated tax depreciation	Fair value gains on investment securities at FVOCI	Others	Total
As at 1 January 2018	47,980	(25,276)	(392,087)	–	(369,383)
Credited/(charged) to the statement of profit or loss	4,541	(2,341)	–	–	2,200
Credited to equity (Note)	–	–	415,141	–	415,141
Reclassified (to)/from deferred income tax assets	(52,521)	27,590	(23,054)	–	(47,985)
As at 31 December 2018 (audited)	**–**	**(27)**	**–**	**–**	**(27)**
Reclassified from/(to) deferred income tax assets	**57,272**	**(28,152)**	**(55,727)**	**425**	**(26,182)**
As at 30 June 2019 (unaudited)	**57,272**	**(28,179)**	**(55,727)**	**425**	**(26,209)**

Note: In 2018, deferred income tax liabilities of HK$410,083,000 provided for the unrealised mark-to-market gains of Bank of Shanghai shares have been released in view of the fact that evidence supporting these shares are held for long term investment purpose was established.

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

26 Reserves attributable to equity holders

	Regulatory reserve (Note)	Investment securities at fair value through other comprehensive income revaluation reserve	General and other reserves	Total
As at 1 January 2018	740,723	2,008,820	7,278,527	10,028,070
Investment securities at fair value through other comprehensive income	–	577,420	–	577,420
Currency translation difference arising from overseas operations	(3,988)	–	(75,729)	(79,717)
Share of reserves of joint ventures	–	(22,461)	311	(22,150)
As at 31 December 2018 (audited)	736,735	2,563,779	7,203,109	10,503,623
As at 1 January 2019	**736,735**	**2,563,779**	**7,203,109**	**10,503,623**
Investment securities at fair value through other comprehensive income	**–**	**474,414**	**–**	**474,414**
Currency translation difference arising from overseas operations	**(114)**	**–**	**(2,231)**	**(2,345)**
Share of reserves of joint ventures	**–**	**11,414**	**71**	**11,485**
Transfer from retained earnings	**100,000**	**–**	**–**	**100,000**
As at 30 June 2019 (unaudited)	**836,621**	**3,049,607**	**7,200,949**	**11,087,177**

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

27 Cash and cash equivalents and other cash flow information

(a) Reconciliation of liabilities arising from financing activities

	Subordinated debts	
	2019 (unaudited)	2018 (unaudited)
As at 1 January	**1,945,079**	1,940,308
Cash inflow from issue of subordinated debts net of cost	**2,343,779**	–
Non-cash changes:		
– Foreign exchange movement	**(18,864)**	7,383
– Amortisation of discount and issuance cost	**34**	515
As at 30 June	**4,270,028**	1,948,206

(b) Cash and cash equivalents

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months' maturity from the date of acquisition and that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	30 June 2019 (unaudited)	30 June 2018 (unaudited)
Cash and balances with banks	**29,942,438**	22,351,158
Placements with banks	**1,734,526**	2,619,229
Debt securities – Exchange Fund Bills	**7,872,054**	1,999,740
	39,549,018	26,970,127

28 Contingent liabilities and commitments

(a) Credit commitments

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

	30 June 2019 (unaudited)	31 December 2018 (audited)
Direct credit substitutes	**2,546,766**	2,437,965
Trade-related contingencies	**1,985,611**	2,221,392
Other commitments with an original maturity of:		
– under 1 year	**2,492,472**	596,418
– 1 year and over	**10,710,569**	10,822,955
– unconditionally cancellable	**36,199,747**	34,832,163
	53,935,165	50,910,893
Credit risk weighted amounts	**7,758,827**	7,642,669

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Contingent liabilities and commitments (Continued)

(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 2019 (unaudited)	31 December 2018 (audited)
Contracted but not provided for	**152,606**	159,284

(c) Lease commitments

(i) As lessee

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

	30 June 2019 (unaudited)	31 December 2018 (audited)
No later than 1 year	**2,113**	112,319
Later than 1 year and no later than 5 years	**3,364**	139,777
Later than 5 years	**–**	8,574
	5,477	260,670

Amount as at 30 June 2019 represents only the commitments on short-term leases and low-value leases, all other lease commitments have been recognized as lease liabilities in the consolidated statement of financial position following the adoption of HKFRS 16 in 2019.

(ii) As lessor

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

	30 June 2019 (unaudited)	31 December 2018 (audited)
No later than 1 year	**83,508**	55,667
Later than 1 year and no later than 5 years	**109,271**	54,251
	192,779	109,918

The Group leases its investment properties (Note 21) under operating lease arrangements, with leases typically for a period from 3 to 5 years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

(d) Other contingent liabilities

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 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 2019 (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	5,194,144	27,455,477	–	–	–	–	–	32,649,621
Placements with banks	–	–	3,542,372	2,604,308	–	–	–	6,146,680
Loans and advances to customers	4,690,405	7,032,808	9,900,812	21,110,383	36,066,559	18,367,568	537,121	97,705,656
Financial assets at fair value through profit or loss	–	8,274	3,614	5,819	93,348	1,808,163	27,129	1,946,347
Derivative financial instruments	–	28,383	45,325	82,912	100,031	–	–	256,651
Investment securities at fair value through other comprehensive income	–	6,244,497	6,538,316	15,820,212	32,792,483	1,706,923	4,471,066	67,573,497
Investment securities at amortised cost	–	839,165	728,173	838,807	39,055	–	–	2,445,200
Properties for sale	–	–	–	–	430,096	–	–	430,096
Investments in joint ventures	–	–	–	–	–	–	422,358	422,358
Right-of-use assets	–	10,087	20,136	86,281	195,782	6,301	–	318,587
Properties and equipment	–	–	–	–	–	–	2,308,457	2,308,457
Investment properties	–	–	–	–	–	–	1,021,502	1,021,502
Deferred income tax assets	–	–	–	–	–	–	15,052	15,052
Other assets	276,397	986,876	99,532	276,573	420,842	67,756	4,310	2,132,286
Total assets	10,160,946	42,605,567	20,878,280	40,825,295	70,138,196	21,956,711	8,806,995	215,371,990
Liabilities								
Deposits and balances from banks	1,197,769	5,878,951	3,937,809	943,123	–	–	–	11,957,652
Deposits from customers	62,687,145	34,706,003	40,896,287	27,904,643	580,955	–	–	166,775,033
Derivative financial instruments	–	43,119	44,097	76,171	100,031	–	–	263,418
Subordinated debts	–	–	–	–	–	4,270,028	–	4,270,028
Lease liabilities	–	9,408	18,754	83,449	211,456	8,647	–	331,714
Other liabilities	452,089	1,096,944	323,748	583,458	5,774	–	–	2,462,013
Current income tax liabilities	–	–	–	294,335	–	–	–	294,335
Deferred income tax liabilities	–	–	–	–	–	–	26,209	26,209
Total liabilities	64,337,003	41,734,425	45,220,695	29,885,179	898,216	4,278,675	26,209	186,380,402
Net liquidity gap	(54,176,057)	871,142	(24,342,415)	10,940,116	69,239,980	17,678,036	8,780,786	28,991,588

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 Maturity analysis (Continued)

As at 31 December 2018 (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	10,001,422	18,607,076	–	–	–	–	–	28,608,498
Placements with banks	–	–	5,939,072	2,704,650	–	–	–	8,643,722
Loans and advances to customers	4,632,344	6,175,346	9,030,892	17,597,946	29,717,025	18,963,160	608,833	86,725,546
Financial assets at fair value through profit or loss	–	–	–	50,248	86,325	1,695,866	26,545	1,858,984
Derivative financial instruments	–	36,893	53,398	171,287	51,742	–	–	313,320
Investment securities at fair value through other comprehensive income	–	8,246,584	1,227,739	12,841,803	36,553,760	177,584	4,351,640	63,399,110
Investment securities at amortised cost	–	7,826	2,087,260	256,254	62,310	–	–	2,413,650
Properties for sale	–	–	–	–	–	–	416,346	416,346
Investments in joint ventures	–	–	–	–	–	–	388,447	388,447
Properties and equipment	–	–	–	–	–	–	2,332,709	2,332,709
Investment properties	–	–	–	–	–	–	1,025,892	1,025,892
Deferred income tax assets	–	–	–	–	–	–	72,193	72,193
Other assets	59,950	644,541	79,110	194,759	385,598	53,120	4,417	1,421,495
Total assets	14,693,716	33,718,266	18,417,471	33,816,947	66,856,760	20,889,730	9,227,022	197,619,912
Liabilities								
Deposits and balances from banks	1,218,308	5,414,546	2,601,190	1,110,944	–	–	–	10,344,988
Deposits from customers	62,975,284	34,938,324	35,444,777	21,140,974	115,359	–	–	154,614,718
Derivative financial instruments	–	41,868	46,356	165,765	51,742	–	–	305,731
Subordinated debts	–	–	–	–	–	1,945,079	–	1,945,079
Other liabilities	830,983	893,281	346,377	342,906	2,642	–	–	2,416,189
Current income tax liabilities	–	–	91,316	–	–	–	–	91,316
Deferred income tax liabilities	–	–	–	–	–	–	27	27
Total liabilities	65,024,575	41,288,019	38,530,016	22,760,589	169,743	1,945,079	27	169,718,048
Net liquidity gap	(50,330,859)	(7,569,753)	(20,112,545)	11,056,358	66,687,017	18,944,651	9,226,995	27,901,864

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

30 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 2019 (unaudited)	**Ultimate holding company and fellow subsidiaries**	**Joint ventures**	**Key management personnel (Note)**	**Other related parties**	**Total**
Aggregate amounts outstanding at the period end					
– Loans and advances	**–**	**–**	**117,340**	**–**	**117,340**
– Cash and balances with banks	**31**	**–**	**–**	**191,628**	**191,659**
– Deposits and balances from banks and customers	**569,577**	**703,574**	**1,840,238**	**2,923,729**	**6,037,118**
– Investment securities at fair value through other comprehensive income	**160,903**	**–**	**–**	**–**	**160,903**
– Stage 1 and Stage 2 impairment allowances	**–**	**1**	**238**	**–**	**239**
– Contingent liabilities and other commitments	**–**	**2,000**	**884,177**	**–**	**886,177**
Six months ended 30 June 2019 (unaudited)					
Interest income received from related parties	**–**	**–**	**3,348**	**5,433**	**8,781**
Interest expenses paid to related parties	**3,121**	**4,387**	**7,551**	**46,366**	**61,425**
Net fee and commission income/(expense) from/(to) related parties	**(6,493)**	**24,899**	**–**	**(83)**	**18,323**
Other operating income from related parties	**17**	**–**	**–**	**(1,395)**	**(1,378)**
Operating expenses to related parties	**–**	**(1,453)**	**(150)**	**(450)**	**(2,053)**

As at 31 December 2018 (audited)	Ultimate holding company and fellow subsidiaries	Joint ventures	Key management personnel (Note)	Other related parties	Total
Aggregate amounts outstanding at the year end					
– Loans and advances	–	–	432,360	–	432,360
– Cash and balances with banks	5	–	–	1,486,842	1,486,847
– Deposits and balances from banks and customers	519,059	476,320	1,394,176	3,023,366	5,412,921
– Investment securities at fair value through other comprehensive income	116,968	–	–	–	116,968
– Stage 1 and Stage 2 impairment allowances	–	1	659	–	660
– Contingent liabilities and other commitments	–	2,000	55,958	–	57,958
Six months ended 30 June 2018 (unaudited)					
Interest income received from related parties	4	–	2,278	44	2,326
Interest expenses paid to related parties	1,501	1,119	1,360	27,829	31,809
Net fee and commission income/(expense) from/(to) related parties	(5,513)	37,173	–	(104)	31,556
Other operating income from related parties	10	–	–	(2,263)	(2,253)
Operating expenses to related parties	–	(1,363)	–	(450)	(1,813)

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

30 Related party transactions (Continued)

Key management personnel compensation

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

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Salaries and other short-term employee benefits	**29,195**	39,401

31 Segment reporting

(a) By operating segment

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

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

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

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

Trade finance – incorporating import and export bills services, invoice financing and invoice discounting.

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

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

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

31 Segment reporting (Continued)

(a) By operating segment (Continued)

	Six months ended 30 June 2019 (unaudited)				
	Retail and corporate banking	**Trade finance**	**Treasury**	**Others**	**Total**
Net interest income	**1,364,660**	**54,637**	**457,817**	**54,972**	**1,932,086**
Net fee and commission income	**185,585**	**46,110**	**–**	**206,056**	**437,751**
Other operating income	**30,749**	**6,709**	**159,081**	**217,442**	**413,981**
Operating income	**1,580,994**	**107,456**	**616,898**	**478,470**	**2,783,818**
Operating expenses	**(428,294)**	**(42,304)**	**(65,946)**	**(295,750)**	**(832,294)**
Credit impairment (losses)/reversal	**(55,207)**	**(1,013)**	**959**	**(152)**	**(55,413)**
Share of net profits of joint ventures	**–**	**–**	**–**	**24,561**	**24,561**
Profit before income tax (after taking into account internal fund transfers and cost allocation)	**1,097,493**	**64,139**	**551,911**	**207,129**	**1,920,672**
Income tax expense	**(257,709)**	**(8,839)**	**(90,530)**	**(2,150)**	**(359,228)**
Depreciation expenses	**(2,267)**	**(241)**	**(1,417)**	**(112,612)**	**(116,537)**
As at 30 June 2019 (unaudited):					
Operating assets	**97,514,102**	**4,269,636**	**107,797,951**	**5,790,301**	**215,371,990**
Operating liabilities	**168,165,309**	**88,293**	**16,821,672**	**1,305,128**	**186,380,402**

	Six months ended 30 June 2018 (unaudited)				
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	1,234,406	60,378	434,064	26,964	1,755,812
Net fee and commission income	108,623	45,643	–	290,776	445,042
Other operating income	27,970	7,142	87,173	190,139	312,424
Operating income	1,370,999	113,163	521,237	507,879	2,513,278
Operating expenses	(420,113)	(42,967)	(65,008)	(248,309)	(776,397)
Credit impairment (losses)/reversal	(15,475)	(1,419)	13	(365)	(17,246)
Share of net profits of joint ventures	–	–	–	28,566	28,566
Profit before income tax (after taking into account internal fund transfers and cost allocation)	935,411	68,777	456,242	287,771	1,748,201
Income tax expense	(212,039)	(9,741)	(73,793)	(24,447)	(320,020)
Depreciation expenses	(2,531)	(246)	(731)	(48,495)	(52,003)
As at 31 December 2018 (audited):					
Operating assets	86,673,470	3,931,065	101,677,652	5,337,725	197,619,912
Operating liabilities	155,608,207	92,105	12,981,204	1,036,532	169,718,048

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

31 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 2019 (unaudited)			Six months ended 30 June 2019 (unaudited)		
	Total assets	**Total liabilities**	**Contingent liabilities and commitments**	**Total operating income**	**Profit before income tax**	**Capital expenditure**
Hong Kong and Mainland China	**185,024,086**	**171,863,475**	**44,716,118**	**2,250,324**	**1,476,380**	**25,097**
United States	**25,821,476**	**11,796,830**	**8,877,382**	**493,291**	**421,267**	**244**
United Kingdom	**4,526,428**	**2,720,097**	**341,665**	**40,203**	**23,025**	**82**
Total	**215,371,990**	**186,380,402**	**53,935,165**	**2,783,818**	**1,920,672**	**25,423**

	As at 31 December 2018 (audited)			Six months ended 30 June 2018 (unaudited)		
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	170,407,173	154,443,145	42,555,434	2,079,755	1,387,141	26,790
United States	23,719,537	12,836,448	8,229,634	402,476	340,639	138
United Kingdom	3,493,202	2,438,455	125,825	31,047	20,421	48
Total	197,619,912	169,718,048	50,910,893	2,513,278	1,748,201	26,976

(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

32 International claims

The following table shows the Group's international claims by major country or geographical segment, each representing 10% or more of the Group's total international claims. International claims refer to exposures to counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

			Non-bank private sector		
As at 30 June 2019 (unaudited)	**Banks**	**Official sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
Developed countries	**17,702,000**	**323,000**	**1,991,000**	**975,000**	**20,991,000**
Offshore centres	**4,662,000**	**52,000**	**3,902,000**	**21,260,000**	**29,876,000**
– of which Hong Kong	**2,930,000**	**52,000**	**2,067,000**	**16,405,000**	**21,454,000**
Developing Asia-Pacific	**48,637,000**	**52,000**	**254,000**	**8,044,000**	**56,987,000**
– of which China	**33,203,000**	**52,000**	**254,000**	**6,376,000**	**39,885,000**
– of which Chinese Taipei	**11,940,000**	**–**	**–**	**1,540,000**	**13,480,000**

			Non-bank private sector		
As at 31 December 2018 (audited)	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	20,649,000	381,000	1,794,000	871,000	23,695,000
Offshore centres	4,749,000	7,000	3,305,000	17,892,000	25,953,000
– of which Hong Kong	3,719,000	7,000	1,864,000	13,819,000	19,409,000
Developing Asia-Pacific	46,056,000	69,000	256,000	6,001,000	52,382,000
– of which China	37,016,000	69,000	256,000	4,832,000	42,173,000
– of which Chinese Taipei	5,828,000	–	–	1,138,000	6,966,000

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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 2019	31 March 2019	31 December 2018	30 September 2018	30 June 2018
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	**26,160,646**	26,258,408	25,126,647	24,184,814	23,456,456
2	Tier 1	**26,160,646**	26,258,408	25,126,647	24,184,814	23,456,456
3	Total capital	**31,660,713**	31,650,412	28,160,772	27,205,692	26,485,373
	Risk Weighted Amounts (RWA)					
4	Total RWA	**165,578,250**	155,303,910	151,367,613	144,978,137	142,008,259
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	**15.8%**	16.9%	16.6%	16.7%	16.5%
6	Tier 1 ratio (%)	**15.8%**	16.9%	16.6%	16.7%	16.5%
7	Total capital ratio (%)	**19.1%**	20.4%	18.6%	18.8%	18.7%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	**2.5%**	2.5%	1.9%	1.9%	1.9%
9	Countercyclical capital buffer requirement (%)	**1.6%**	1.5%	1.1%	1.2%	1.2%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	**0.0%**	0.0%	0.0%	0.0%	0.0%
11	Total AI-specific CET1 buffer requirements (%)	**4.1%**	4.0%	3.0%	3.1%	3.1%
12	CET1 available after meeting the AI's minimum capital requirements (%)	**9.8%**	10.9%	10.6%	10.7%	10.5%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	**228,115,200**	213,839,604	208,591,012	202,623,550	196,710,865
14	LR (%)	**11.5%**	12.3%	12.0%	11.9%	11.9%
	Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	**N/A**	N/A	N/A	N/A	N/A
16	Total net cash outflows	**N/A**	N/A	N/A	N/A	N/A
17	LCR (%)	**N/A**	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	**49.9%**	52.7%	48.2%	44.1%	44.1%
	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 (%)	**178.3%**	189.5%	191.7%	182.5%	182.5%

Footnote:

N/A Not applicable

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 30 June 2019 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratio represents the consolidated ratio of the Bank's Hong Kong offices and its overseas branches, Shacom Property (CA), Inc., Shacom Property (NY), Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited, Right Honour Investments Limited, Glory Step Westpoint Investments Limited, Silver Wisdom Westpoint Investments Limited, Shacom Insurance Brokers Limited, KCC 23F Limited, KCC 25F Limited, and KCC 26F Limited computed in accordance with Section 3C(1) of the BCR.

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

The table below shows the balance sheet based on accounting scope of consolidation and the regulatory scope of consolidation, and the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Composition of Regulatory Capital as at 30 June 2019.

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	**32,649,621**	**32,648,169**	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital		***(426)***	(1)
Placements with banks	**6,146,680**	**6,146,680**	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital		***(81)***	(2)
Loans and advances to customers	**97,705,656**	**97,705,656**	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital		***(369,799)***	(3)
Financial assets at fair value through profit or loss	**1,946,347**	**1,924,930**	
Derivative financial instruments	**256,651**	**256,651**	
Investment securities at fair value through other comprehensive income	**67,573,497**	**67,558,279**	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		***1,542,948***	(4)
Investment securities at amortised cost	**2,445,200**	**2,444,111**	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital		***(22)***	(5)
Properties for sale	**430,096**	**430,096**	
Investments in joint ventures	**422,358**	**188,000**	
Right-of-use assets	**318,587**	**318,587**	
Investments in and amounts due from subsidiaries	**–**	**236,953**	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital		***(7,457)***	(6)
Properties and equipment	**2,308,457**	**2,289,018**	
Investment properties	**1,021,502**	**1,051,718**	
Deferred income tax assets	**15,052**	**14,847**	(7)
Other assets	**2,132,286**	**2,069,154**	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital		***(298)***	(8)
Total assets	**215,371,990**	**215,282,849**	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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	11,957,652	11,957,652	
Deposits from customers	166,775,033	166,775,033	
Derivatives financial instruments	263,418	263,418	
Amounts due to subsidiaries	–	458,153	
Subordinated debts	4,270,028	4,270,028	(9)
Lease liabilities	331,714	331,714	
Other liabilities	2,462,013	2,352,813	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital		*15,335*	(10)
Current income tax liabilities	294,335	294,035	
Deferred income tax liabilities	26,209	24,941	
Total liabilities	186,380,402	186,727,787	
Equity			
Share capital	2,000,000	2,000,000	(11)
Retained earnings	15,820,376	15,476,943	(12)
Reserves	11,087,177	11,078,119	
of which: accumulated other comprehensive income/(loss), other than regulatory reserve		*10,241,498*	(13)
regulatory reserve		*836,621*	(14)
Non-controlling interests	84,035	–	
Total equity	28,991,588	28,555,062	
Total equity and liabilities	215,371,990	215,282,849	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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 2019 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	(11)
2	Retained earnings	15,476,943	(12)
3	Disclosed reserves	11,078,119	(13) + (14)
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**	**28,555,062**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liability)	–	
9	Other intangible assets (net of associated deferred tax liability)	–	
10	Deferred tax assets (net of associated deferred tax liabilities)	14,847	(7)
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	1,542,948	(4)
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	836,621	
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	836,621	(14)
26c	Securitization exposures specified in a notice given by the Monetary Authority	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	CET1 capital: regulatory deductions (Continued)		
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	**Total regulatory deductions to CET1 capital**	**2,394,416**	
29	**CET1 capital**	**26,160,646**	
	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)**	**26,160,646**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	4,270,028	(9)
47	Capital instruments subject to phase out arrangements from Tier 2 capital	–	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
49	of which: capital instruments issued by subsidiaries subject to phase out arrangements	–	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,230,039	(10) + (14) – (1) – (2) – (3) – (5) – (6) – (8)
51	**Tier 2 capital before regulatory deductions**	**5,500,067**	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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**	**5,500,067**	
59	**Total regulatory capital (TC = Tier 1 + Tier 2)**	**31,660,713**	
60	**Total risk weighted assets**	**165,578,250**	
	Capital ratios (as a percentage of risk weighted assets)		
61	**CET1 capital ratio**	**15.8%**	
62	**Tier 1 capital ratio**	**15.8%**	
63	**Total capital ratio**	**19.1%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**4.1%**	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical capital buffer requirement	1.6%	
67	of which: higher loss absorbency requirement	0.0%	
68	**CET1 (as a percentage of RWA) available after meeting minimum capital requirements**	**9.8%**	
	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	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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	2,770,361	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	629,765	
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)	1,230,039	
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	1,858,353	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	–	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	–	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

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:

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">10</td><td>Deferred tax assets (“DTA”) (net of associated deferred tax liabilities)</td><td>14,847</td><td>–</td></tr>
<tr><td colspan="3"><u>Explanation</u>
As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 10 (i.e. the amount reported under the “Hong Kong basis”) adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</td></tr>
<tr><td colspan="4">Remarks:
The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</td></tr>
</table>

Footnote:
CET1 Common Equity Tier 1
AT1 Additional Tier 1

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments

The main features of regulatory capital instruments as at 30 June 2019 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/20190630.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/group & solo	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$1,941 million	HK$2,329 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
	Coupons/dividends			
17	Fixed or floating dividend/ coupon	Floating	Fixed	Fixed

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
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 DISCLOSURE

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

Footnote:

#	Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the BCR
+	Regulatory treatment of capital instruments not subject to transitional arrangement provided for in Schedule 4H of the BCR
*	Include solo-consolidated
N/A	Not applicable

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

3 Overview of RWA

The table below shows the breakdowns of RWA for various risks as at 30 June 2019 and 31 March 2019 and the minimum capital requirements as at 30 June 2019 are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		30 June 2019	31 March 2019	30 June 2019
1	Credit risk for non-securitization exposures	**145,055,958**	135,492,519	**11,604,477**
2	Of which STC approach	**145,055,958**	135,492,519	**11,604,477**
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	**2,037,878**	1,700,907	**163,030**
7	Of which SA-CCR	**Not Applicable**	Not Applicable	**Not Applicable**
7a	Of which CEM	**2,037,878**	1,700,907	**163,030**
8	Of which IMM(CCR) approach	**–**	–	**–**
9	Of which others	**–**	–	**–**
10	CVA risk	**513,313**	453,988	**41,065**
11	Equity positions in banking book under the simple risk-weight method and internal models method	**–**	–	**–**
12	Collective investment scheme ("CIS") exposures – LTA	**Not Applicable**	Not Applicable	**Not Applicable**
13	CIS exposures – MBA	**Not Applicable**	Not Applicable	**Not Applicable**
14	CIS exposures – FBA	**Not Applicable**	Not Applicable	**Not Applicable**
14a	CIS exposures – combination of approaches	**Not Applicable**	Not Applicable	**Not Applicable**
15	Settlement risk	**–**	–	**–**
16	Securitization exposures in banking book	**–**	–	**–**
17	Of which SEC-IRBA	**–**	–	**–**
18	Of which SEC-ERBA (including IAA)	**–**	–	**–**
19	Of which SEC-SA	**–**	–	**–**
19a	Of which SEC-FBA	**–**	–	**–**
20	Market risk	**7,534,875**	7,615,700	**602,790**
21	Of which STM approach	**7,534,875**	7,615,700	**602,790**
22	Of which IMM approach	**–**	–	**–**
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	**Not Applicable**	Not Applicable	**Not Applicable**
24	Operational risk	**8,861,813**	8,454,738	**708,945**
24a	Sovereign concentration risk	**Not Applicable**	Not Applicable	**Not Applicable**
25	Amounts below the thresholds for deduction (subject to 250% RW)	**1,574,413**	1,586,058	**125,953**
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**	**165,578,250**	**155,303,910**	**13,246,260**

REGULATORY DISCLOSURE

4 Countercyclical Capital Buffer ("CCyB") Ratio

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

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

The following table shows the CCyB ratio, the geographical breakdown of the RWA in relation to private sector credit exposures that are relevant to the calculation of CCyB ratio and which have an applicable JCCyB ratio greater than zero as at 30 June 2019.

	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	2.5%	74,873,302		
2	United Kingdom	1.0%	523,758		
	Sum		**75,397,060**		
	Total		**120,180,057**	**1.6%**	**2,586,332**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

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 2019.

	Item	Value under the LR framework
1	Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	215,807,711
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(89,141)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
4	Adjustments for derivative contracts	2,809,124
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)	12,417,643
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(435,721)
7	Other adjustments	(2,394,416)
8	**Leverage ratio exposure measure**	**228,115,200**

The leverage ratios as at 30 June 2019 and 31 March 2019 are shown below:

		30 June 2019	31 March 2019
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	215,461,919	201,354,242
2	Less: Asset amounts deducted in determining Tier 1 capital	(2,394,416)	(2,598,061)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**213,067,503**	**198,756,181**
	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)	256,651	257,660
5	Add-on amounts for PFE associated with all derivative contracts	2,809,124	2,380,394
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	–	–
8	Less: Exempted CCP leg of client-cleared trade exposures	–	–
9	Adjusted effective notional amount of written credit derivative contracts	–	–
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	–	–
11	**Total exposures arising from derivative contracts**	**3,065,775**	**2,638,054**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

5 Leverage ratio (Continued)

The leverage ratios as at 30 June 2019 and 31 March 2019 are shown below: (Continued)

		30 June 2019	31 March 2019
	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	53,935,165	54,924,631
18	Less: Adjustments for conversion to credit equivalent amounts	(41,517,522)	(42,083,067)
19	**Off-balance sheet items**	**12,417,643**	**12,841,564**
	Capital and total exposures		
20	**Tier 1 capital**	**26,160,646**	**26,258,408**
20a	**Total exposures before adjustments for specific and collective provisions**	**228,550,921**	**214,235,799**
20b	**Adjustments for specific and collective provisions**	**(435,721)**	**(396,195)**
21	**Total exposures after adjustments for specific and collective provisions**	**228,115,200**	**213,839,604**
	Leverage ratio		
22	**Leverage ratio**	**11.5%**	**12.3%**

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

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

6 Credit risk

(a) Credit quality of exposures as at 30 June 2019

		Gross carrying amounts of			Of which ECL accounting provisions for credit losses on STC approach exposures			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions	Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values
1	Loans	434,930	97,682,828	412,102	42,303	369,799	–	97,705,656
2	Debt securities	–	65,535,309	22	–	22	–	65,535,287
3	Off-balance sheet exposures	–	17,735,418	5,179		5,179	–	17,730,239
4	**Total**	**434,930**	**180,953,555**	**417,303**	**42,303**	**375,000**	**–**	**180,971,182**

(b) Changes in defaulted loans and debt securities

		Amount
1	Defaulted loans and debt securities as at end December 2018	476,199
2	Loans and debt securities that have defaulted since the last reporting period	3,020
3	Returned to non-defaulted status	–
4	Amounts written off	(4,276)
5	Other changes	(40,013)
6	**Defaulted loans and debt securities as at end June 2019**	**434,930**

(c) Overview of recognized credit risk mitigation as at 30 June 2019

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	93,892,548	3,813,108	2,720,961	1,092,147	–
2	Debt securities	65,535,287	–	–	–	–
3	**Total**	**159,427,835**	**3,813,108**	**2,720,961**	**1,092,147**	**–**
4	Of which defaulted	4,152	407,434	407,434	–	–

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

6 Credit risk (Continued)

(d) Credit risk exposures and effects of recognized credit risk mitigation – for STC approach as at 30 June 2019

		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	11,326,888	–	11,326,888	–	28,467	0%
2	PSE exposures	–	–	–	–	–	–
2a	Of which: domestic PSEs	–	–	–	–	–	–
2b	Of which: foreign PSEs	–	–	–	–	–	–
3	Multilateral development bank exposures	–	–	–	–	–	–
4	Bank exposures	72,563,914	1,760,621	73,561,794	370,221	25,185,160	34%
5	Securities firm exposures	509,790	1,259,287	509,790	–	254,895	50%
6	Corporate exposures	96,318,386	38,623,974	93,729,831	7,226,720	95,598,124	95%
7	CIS exposures	–	–	–	–	–	–
8	Cash items	357,164	–	2,645,962	–	163,748	6%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	–
10	Regulatory retail exposures	4,447,912	2,797,202	4,308,639	164,591	3,354,922	75%
11	Residential mortgage loans	9,691,563	1,862,848	9,689,307	914,157	5,421,130	51%
12	Other exposures which are not past due exposures	15,030,242	7,631,233	14,473,648	121,978	14,595,626	100%
13	Past due exposures	446,645	–	446,645	–	453,886	102%
14	Significant exposures to commercial entities	–	–	–	–	–	–
15	**Total**	**210,692,504**	**53,935,165**	**210,692,504**	**8,797,667**	**145,055,958**	**66%**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

6 Credit risk (Continued)

(e) Credit risk exposures by asset classes and by risk weights – for STC approach as at 30 June 2019

	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	11,184,552	–	142,336	–	–	–	–	–	–	–	**11,326,888**
2	PSE exposures	–	–	–	–	–	–	–	–	–	–	**–**
2a	Of which: domestic PSEs	–	–	–	–	–	–	–	–	–	–	**–**
2b	Of which: foreign PSEs	–	–	–	–	–	–	–	–	–	–	**–**
3	Multilateral development bank exposures	–	–	–	–	–	–	–	–	–	–	**–**
4	Bank exposures	–	–	39,830,920	–	33,764,241	–	336,854	–	–	–	**73,932,015**
5	Securities firm exposures	–	–	–	–	509,790	–	–	–	–	–	**509,790**
6	Corporate exposures	–	–	344,544	–	10,165,582	–	90,446,425	–	–	–	**100,956,551**
7	CIS exposures	–	–	–	–	–	–	–	–	–	–	**–**
8	Cash items	1,930,677	–	689,422	–	–	–	25,863	–	–	–	**2,645,962**
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	–	–	–	–	–	**–**
10	Regulatory retail exposures	–	–	–	–	–	4,473,230	–	–	–	–	**4,473,230**
11	Residential mortgage loans	–	–	–	7,865,610	–	278,754	2,459,100	–	–	–	**10,603,464**
12	Other exposures which are not past due exposures	–	–	–	–	–	–	14,595,626	–	–	–	**14,595,626**
13	Past due exposures	–	–	–	–	–	–	432,163	14,482	–	–	**446,645**
14	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	**–**
15	**Total**	**13,115,229**	**–**	**41,007,222**	**7,865,610**	**44,439,613**	**4,751,984**	**108,296,031**	**14,482**	**–**	**–**	**219,490,171**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

7 Counterparty credit risk

(a) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches as at 30 June 2019

		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	–	–		1.4	–	–
1a	CEM	255,930	2,809,124		–	3,065,054	2,037,878
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	**Total**						**2,037,878**

(b) CVA capital charge as at 30 June 2019

		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	3,065,054	513,313
4	**Total**	**3,065,054**	**513,313**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

7 Counterparty credit risk (Continued)

(c) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach as at 30 June 2019

	Risk Weight / Exposure class	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	–	–	600,505	–	672,290	–	16,510	–	–	–	**1,289,305**
5	Securities firm exposures	–	–	–	–	–	–	–	–	–	–	**–**
6	Corporate exposures	–	–	–	–	421,255	–	662,916	–	–	–	**1,084,171**
7	CIS exposures	–	–	–	–	–	–	–	–	–	–	**–**
8	Regulatory retail exposures	–	–	–	–	–	–	–	–	–	–	**–**
9	Residential mortgage loans	–	–	–	–	–	–	–	–	–	–	**–**
10	Other exposures which are not past due exposures	–	–	–	–	–	–	691,578	–	–	–	**691,578**
11	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	**–**
12	**Total**	**–**	**–**	**600,505**	**–**	**1,093,545**	**–**	**1,371,004**	**–**	**–**	**–**	**3,065,054**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

7 Counterparty credit risk (Continued)

(d) Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) as at 30 June 2019

		Derivative contracts				SFTs	
		Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash – other currencies	–	–	–	61,629	–	–
2	**Total**	**–**	**–**	**–**	**61,629**	**–**	**–**

(e) Credit-related derivatives contracts

The Group did not have any credit-related derivatives contracts as at 30 June 2019.

(f) Exposures to CCPs

The Group did not have any exposures to CCPs as at 30 June 2019.

8 Market risk

Market risk under STM approach as at 30 June 2019

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	2,279,875
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	5,255,000
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	–
7	Other approach	–
8	Securitization exposures	–
9	**Total**	**7,534,875**

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

9 Non-bank mainland exposures

The Bank	**30 June 2019**			31 December 2018		
Types of counterparties	**On-balance sheet exposures**	**Off-balance sheet exposures**	**Total**	On-balance sheet exposures	Off-balance sheet exposures	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures	**8,596,764**	**8,330**	**8,605,094**	6,292,131	2,208	6,294,339
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	**6,472**	**–**	**6,472**	19,115	–	19,115
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	**6,581,103**	**1,012,044**	**7,593,147**	7,298,028	1,372,484	8,670,512
4. Other entities of central government not reported in item 1 above	**1,786,652**	**–**	**1,786,652**	638,900	–	638,900
5. Other entities of local governments not reported in item 2 above	**2,245,034**	**87,500**	**2,332,534**	1,248,651	–	1,248,651
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**7,358,861**	**1,096,605**	**8,455,466**	7,056,484	1,113,220	8,169,704
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**762,788**	**269**	**763,057**	600,757	519	601,276
Total	**27,337,674**	**2,204,748**	**29,542,422**	23,154,066	2,488,431	25,642,497
Total assets after provision	**202,900,520**			185,975,357		
On-balance sheet exposures as percentage of total assets	**13.47%**			12.45%		

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURE

10 Currency concentrations

As at 30 June 2019

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	**79,577,000**	**(71,645,000)**	**28,050,000**	**(23,603,000)**	**–**	**12,379,000**	**264,000**
Pound Sterling	**6,693,000**	**(6,643,000)**	**2,805,000**	**(2,848,000)**	**–**	**7,000**	**24,000**
Renminbi	**19,370,000**	**(18,498,000)**	**9,631,000**	**(9,620,000)**	**–**	**883,000**	**5,804,000**
Australian Dollars	**3,474,000**	**(3,365,000)**	**2,013,000**	**(2,121,000)**	**–**	**1,000**	**–**
Other currencies and gold	**3,881,000**	**(3,640,000)**	**3,059,000**	**(3,279,000)**	**–**	**21,000**	**–**
	112,995,000	**(103,791,000)**	**45,558,000**	**(41,471,000)**	**–**	**13,291,000**	**6,092,000**

As at 31 December 2018

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	76,854,000	(67,708,000)	17,276,000	(19,360,000)	–	7,062,000	2,310,000
Pound Sterling	4,944,000	(4,923,000)	732,000	(757,000)	–	(4,000)	35,000
Renminbi	18,474,000	(17,488,000)	9,258,000	(9,423,000)	–	821,000	5,678,000
Australian Dollars	3,512,000	(3,500,000)	875,000	(892,000)	–	(5,000)	–
Other currencies and gold	4,031,000	(4,010,000)	1,466,000	(1,465,000)	–	22,000	–
	107,815,000	(97,629,000)	29,607,000	(31,897,000)	–	7,896,000	8,023,000

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

– investments in properties and equipment, net of depreciation;

– capital, statutory reserves and unremitted profits of overseas branches; and

– investments in overseas subsidiaries and related company.

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

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

REVIEW OF OPERATIONS

Financial Review

During the first half of 2019, the external environment was largely dominated by the on-going Sino-U.S. trade dispute while the local market was affected by the social and economic instability.

Despite such unfavourable market conditions, Shanghai Commercial Bank Limited (the "Bank") maintained its growth momentum, with the consolidated profit after tax for the six months ended 30 June 2019 achieving a year-on-year increase of HK$133 million or 9.3% to reach HK$1,561 million, mainly attributable to better performance in net interest income benefitted by the growth in our assets and new loans, while fee and commission income from the corporate and treasury-related businesses contributed significantly in offsetting lackluster performances from the securities and life insurance sectors.

The overall loan-to-deposit ratio rose from 57% at the end of 2018 to 59% as total loans and advances grew by 12.7% to HK$98 billion, while customer deposits increased by 7.9% to HK$167 billion. The average net interest margin widened by 5 basis points to 2.03% from 1.98% for the same period last year and was comparable to the 2018 yearly average, largely due to the enhanced average yield from interbank placements, loans and investments.

The Bank's total expenses at HK$832 million were HK$56 million or 7.2% higher than that of HK$776 million for the same period last year, mainly attributed to higher personnel expenses. Cost-to-income ratio continued to stay low and improved by one percentage point to 29.9% compared with the same period last year.

The total comprehensive income attributable to equity holders at HK$2,032 million was HK$157 million or 8.4% higher than that of the same period last year due to increased net operating profit and mark-to-market valuation of the holdings in the listed Bank of Shanghai Co., Ltd. ("Bank of Shanghai") shares and other debt securities.

Total assets reached HK$215 billion with shareholders' funds at HK$29 billion, and they were respectively 9.0% and 3.9% higher compared to the corresponding balances at the end of last year. Returns on average total assets and average equity for the first half of 2019 were 1.5% and 11.0% respectively. Capital and liquidity levels continued strong with average liquidity maintenance ratio at 51.3% and capital adequacy ratio at 19.1% at the end of June 2019. On 17 January 2019, we launched the second issuance of our Tier-2 subordinated notes for US$300 million.

Operation Strategies

In line with our motto of "For Personalized Service", we continue to focus on offering seamless banking experience to our customers across a variety of channels, all in an effort to strengthen our competitive advantage in providing personalized and timely services.

During the reporting period, we have launched a new Corporate Internet Banking (CIB) platform, and introduced UnionPay mobile application to enable customers to conveniently use their UnionPay cards for small amount payments and purchases. To further improve our customers' mobile payment experience, we will further enhance our Shacom Pay mobile application and introduce the biometric authentication function within the year. Furthermore, we are an active participant in the Policy Reverse Mortgage Programme launched by the Hong Kong Mortgage Corporation with the mission to meet customer needs and bring added value to their lives.

We continue to leverage on our tri-bank alliance with Bank of Shanghai in Mainland China and our parent bank, The Shanghai Commercial & Savings Bank, Ltd. in Taiwan, to expand the customer base and provide global business support and services to the benefit of the three banks and their customers. We will also critically assess our capabilities and devise optimal strategies to capture opportunities arising from the development of the Greater Bay Area and the Belt & Road initiatives.

We are proud of our prudent business strategies as we continue to maintain our credit ratings. Looking ahead, we will devote more resources in strengthening the compliance and risk management functions of the Bank, both in terms of systems and manpower, to uphold the spirit of a highly compliant culture.

REVIEW OF OPERATIONS

Sustainability and Bank Culture

We actively engage with different sectors in a wide range of Corporate Social Responsibility ("CSR") initiatives, including financial donations, corporate sponsorships and volunteer services, as well as supporting different programmes to foster the needs of younger generations and of the underprivileged. We strive to promote sustainability by encouraging our customers and other stakeholders to join us in going green via digital channels and switching to paperless statements and communications from the Bank.

The Bank continues to promote a sound corporate culture that aligns with the three pillars laid down by the regulators. This year, we have spared no efforts in reinforcing proper behavioural standards through various staff engagement activities and training programmes, supported by a refined performance management and promotion mechanism. We will work towards embedding the Bank's core corporate values of "Accountability", "Integrity", "Leadership", "Proactiveness", "Professionalism", "Respect" and "Teamwork" in the policies, processes, procedures and practices.

Looking Ahead

In view of the mounting uncertainty and negative sentiment both globally and in Hong Kong, we expect the operating environment for the remainder of the year to be challenging. Nevertheless, the Board of Directors and the management will continue to stay focused on the Bank's customers, to regularly revisit the Bank's 5-year strategic plan and digital strategy, and to invest suitably in technology and upskilling our employees in order to stay ahead of the emerging competition from the coming into play of virtual banks, mobile payment platforms and other fintech operators.

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, 14 August 2019

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 2019 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 August 2019