



2020

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 2020

**Contents**

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



Welcome to Shanghai Commercial Bank Limited's website



## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Interest income	6	3,126,144	3,224,525
Interest expense	6	<u>(1,322,361)</u>	<u>(1,292,439)</u>
<b>Net interest income</b>		<b>1,803,783</b>	1,932,086
Fee and commission income	7	428,384	464,822
Fee and commission expense	7	<u>(27,080)</u>	<u>(27,071)</u>
<b>Net fee and commission income</b>		<b>401,304</b>	437,751
Net trading income	8	119,750	134,251
Net gains from disposal of investment securities at fair value through other comprehensive income		96,558	24,830
Dividend income from investment securities at fair value through other comprehensive income		2,820	168,040
Other operating income	9	74,004	78,931
Net earned insurance premium	10	22,219	24,583
Net insurance claims incurred and movement in policyholders' liabilities	10	(16,072)	(16,654)
Operating expenses	11	(798,710)	(832,294)
Credit impairment losses	12	<u>(93,587)</u>	<u>(55,413)</u>
<b>Operating profit</b>		<b>1,612,069</b>	1,896,111
Share of net (losses)/profits of associates and joint venture		<u>(988)</u>	<u>24,561</u>
<b>Profit before income tax</b>		<b>1,611,081</b>	1,920,672
Income tax expense	13	<u>(332,221)</u>	<u>(359,228)</u>
<b>Profit for the period</b>		<b><u>1,278,860</u></b>	<b><u>1,561,444</u></b>
<b>Attributable to:</b>			
Equity holders of the Bank		1,276,566	1,557,900
Non-controlling interests		<u>2,294</u>	<u>3,544</u>
		<b><u>1,278,860</u></b>	<b><u>1,561,444</u></b>

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2020

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
<b>Profit for the period</b>	<b>1,278,860</b>	1,561,444
<b>Other comprehensive income</b>		
<b><u>Items that may be reclassified to profit or loss</u></b>		
Exchange differences on translation of overseas operations	(50,618)	(11,370)
Investment securities at fair value through other comprehensive income		
– Changes in fair value	411,050	458,547
– Credit impairment losses recognised in profit or loss	6,696	(722)
– Fair value changes transferred to profit or loss on disposal	(96,558)	(24,830)
– Deferred income tax	(51,891)	(71,563)
Share of reserves of associates and joint venture	(15,809)	11,498
<b><u>Items that will not be reclassified to profit or loss</u></b>		
Equity investments at fair value through other comprehensive income		
– Changes in fair value	(651,370)	120,261
– Deferred income tax	2,787	(7,249)
Share of reserves of associates and joint venture	–	(13)
<b>Other comprehensive income for the period, net of tax</b>	<b>(445,713)</b>	474,559
<b>Total comprehensive income for the period</b>	<b>833,147</b>	2,036,003
<b>Attributable to:</b>		
Equity holders of the Bank	830,860	2,032,429
Non-controlling interests	2,287	3,574
<b>Total comprehensive income for the period</b>	<b>833,147</b>	2,036,003

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2020 (unaudited)	31 December 2019 (audited)
<b>ASSETS</b>			
Cash and balances with banks	14	28,166,234	34,128,614
Placements with banks	15	9,952,929	7,090,556
Loans and advances to customers	16	99,398,569	98,773,691
Financial assets at fair value through profit or loss		2,161,013	1,881,025
Derivative financial instruments	17	697,157	285,089
Investment securities at fair value through other comprehensive income		75,708,380	71,558,546
Investment securities at amortised cost		380,895	2,480,924
Properties for sale	18	486,679	449,462
Investments in associates and joint venture		398,731	417,663
Properties and equipment	19	2,682,057	2,700,014
Investment properties	20	1,014,973	1,017,148
Deferred income tax assets	24	19,317	28,115
Other assets		2,637,525	1,814,267
<b>TOTAL ASSETS</b>		<b>223,704,459</b>	<b>222,625,114</b>
<b>LIABILITIES</b>			
Deposits and balances from banks		9,564,760	11,677,610
Deposits from customers	21	173,961,945	172,438,516
Derivative financial instruments	17	635,506	292,599
Subordinated debts	23	4,239,052	4,257,647
Other liabilities		4,445,734	2,813,883
Current income tax liabilities		277,812	501,694
Deferred income tax liabilities	24	62,719	18,901
<b>TOTAL LIABILITIES</b>		<b>193,187,528</b>	<b>192,000,850</b>
<b>EQUITY</b>			
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS</b>			
Share capital		2,000,000	2,000,000
Retained earnings		17,468,636	17,158,968
Reserves	25	10,960,109	11,378,917
		<b>30,428,745</b>	<b>30,537,885</b>
<b>Non-controlling interests in equity</b>		<b>88,186</b>	<b>86,379</b>
<b>TOTAL EQUITY</b>		<b>30,516,931</b>	<b>30,624,264</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>223,704,459</b>	<b>222,625,114</b>

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2020

(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)		
<b>As at 1 January 2019</b>		2,000,000	10,503,623	15,311,501	80,861	27,895,985
<b>Profit for the period</b>		–	–	1,557,900	3,544	1,561,444
<b>Other comprehensive income (net of tax)</b>						
Investment securities at fair value through other comprehensive income		–	474,414	–	30	474,444
Currency translation difference arising from overseas operations		–	(2,345)	(9,025)	–	(11,370)
Share of reserves of associates and joint venture		–	11,485	–	–	11,485
<b>Total other comprehensive income</b>		–	483,554	(9,025)	30	474,559
Transfer from retained earnings		–	100,000	(100,000)	–	–
Payment of dividend relating to 2018		–	–	(940,000)	(400)	(940,400)
<b>As at 30 June 2019 (unaudited)</b>		<u>2,000,000</u>	<u>11,087,177</u>	<u>15,820,376</u>	<u>84,035</u>	<u>28,991,588</u>
<b>As at 1 January 2020</b>		<u>2,000,000</u>	<u>11,378,917</u>	<u>17,158,968</u>	<u>86,379</u>	<u>30,624,264</u>
<b>Profit for the period</b>		–	–	1,276,566	2,294	1,278,860
<b>Other comprehensive income (net of tax)</b>						
Investment securities at fair value through other comprehensive income	25	–	(379,279)	–	(7)	(379,286)
Currency translation difference arising from overseas operations	25	–	(23,720)	(26,898)	–	(50,618)
Share of reserves of associates and joint venture	25	–	(15,809)	–	–	(15,809)
<b>Total other comprehensive income</b>		–	(418,808)	(26,898)	(7)	(445,713)
Payment of dividend relating to 2019		–	–	(940,000)	(480)	(940,480)
<b>As at 30 June 2020 (unaudited)</b>		<u>2,000,000</u>	<u>10,960,109</u>	<u>17,468,636</u>	<u>88,186</u>	<u>30,516,931</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
<b>Cash flows from operating activities</b>			
Profit before income tax		1,611,081	1,920,672
Share of net losses/(profits) of associates and joint venture		988	(24,561)
Credit impairment losses	12	93,587	55,413
Depreciation expenses		121,630	116,537
Net losses/(gains) from disposal of equipment	9	25	(46)
Net gains from disposal of investment securities at fair value through other comprehensive income		(96,558)	(24,830)
Interest income on investment securities at amortised cost	6	(14,846)	(20,101)
Interest income on investment securities at fair value through other comprehensive income	6	(839,703)	(864,622)
Interest expense on subordinated debts	6	94,542	91,789
Interest expense on lease liabilities	6	4,714	6,270
Dividend income		(2,820)	(168,040)
Hong Kong profits tax paid		(407,772)	(1,631)
Overseas tax paid		(158,116)	(176,019)
Effect of exchange rate changes		519,839	98,290
		926,591	1,009,121
Cash flows from operating activities before changes in operating assets and liabilities		926,591	1,009,121
Changes in operating assets and liabilities:			
– Net (increase)/decrease in balances with banks with original maturity beyond 3 months		(28,252)	155,886
– Net (increase)/decrease in placements with banks with original maturity beyond 3 months		(2,433,912)	3,391,555
– Net increase in financial assets at fair value through profit or loss		(279,988)	(87,363)
– Net (increase)/decrease in derivative financial instruments		(69,161)	14,356
– Net increase in loans and advances to customers		(701,441)	(11,032,828)
– Net increase in right-of-use assets		(41,115)	(32,238)
– Net increase in other assets		(841,092)	(465,216)
– Net (decrease)/increase in deposits and balances from banks		(2,112,850)	1,612,664
– Net increase in deposits from customers		1,523,429	12,160,315
– Net increase in lease liabilities		41,115	32,214
– Net increase/(decrease) in other liabilities		1,644,781	(6,957)
		(2,371,895)	6,751,509
Net cash flows from operating activities		(2,371,895)	6,751,509

**SHANGHAI COMMERCIAL BANK LIMITED**

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2020

(All amounts in HK dollar thousands unless otherwise stated)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
<b>Cash flows from investing activities</b>			
Interest received on investment securities at amortised cost and fair value through other comprehensive income		839,242	773,434
Dividends received on investment securities at fair value through other comprehensive income		2,820	2,949
Dividends received from associates and joint venture		2,135	2,135
Purchases of properties and equipment		(51,486)	(25,366)
Additions of investment properties		(2,272)	(57)
Additions of properties for sale		(37,217)	(13,750)
Proceeds from sale of equipment		150	149
Purchases of investment securities at fair value through other comprehensive income		(43,103,829)	(23,277,095)
Purchases of investment securities at amortised cost		(1,043,564)	(2,727,473)
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income		39,333,799	18,233,474
Proceeds from redemption of investment securities at amortised cost		2,205,474	3,850,827
		<u>(1,854,748)</u>	<u>(3,180,773)</u>
<b>Cash flows from financing activities</b>			
Issue of subordinated debts	26(a)	–	2,343,779
Interest paid on subordinated debts		(94,725)	(36,742)
Payment of lease liabilities		(59,221)	(63,632)
Dividend paid to equity holders		(940,000)	(940,000)
Dividend paid to non-controlling interests		(480)	(400)
		<u>(1,094,426)</u>	<u>1,303,005</u>
Net cash flows from investing activities		<u>(1,854,748)</u>	<u>(3,180,773)</u>
Net cash flows from financing activities		<u>(1,094,426)</u>	<u>1,303,005</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,321,069)</b>	<b>4,873,741</b>
Cash and cash equivalents as at 1 January		39,812,613	34,702,607
Effect of exchange rate changes on cash and cash equivalents		(381,316)	(27,330)
		<u>34,110,228</u>	<u>39,549,018</u>
<b>Cash and cash equivalents as at 30 June</b>	26(b)	<b>34,110,228</b>	<b>39,549,018</b>
Cash flows from operating, investing and financing activities included:			
Interest received		3,210,362	3,183,522
Interest paid		(1,329,131)	(1,138,654)



## 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 12 August 2020.

### 2 Basis of preparation

This Group Interim Financial Disclosure Statement for the six months ended 30 June 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the year ended 31 December 2019 that is included in the 2020 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 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

**3 Accounting policies**

The accounting policies applied in the preparation of the 2020 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 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## (a) New and amended standards adopted by the Group for the period ended 30 June 2020

	Effective for accounting periods beginning on or after
Definition of Material – Amendments to HKAS 1 and HKAS 8	1 January 2020
Definition of a Business – Amendments to HKFRS 3	1 January 2020
Revised Conceptual Framework for Financial Reporting	1 January 2020

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

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

	Effective for accounting periods beginning on or after
HKFRS 17 "Insurance contracts"	1 January 2021

**HKFRS 17 "Insurance contracts"**

HKFRS 17 "Insurance contracts" is effective for the accounting period beginning on or after 1 January 2021. International Accounting Standards Board has issued amendments to International Financial Reporting Standard 17 ("IFRS 17") in June 2020 including the deferral of effective date to 1 January 2023, however, Hong Kong Institute of Certified Public Accountants ("HKICPA") has yet to adopt those amendments to HKFRS 17 as they are subject to the endorsement by the Financial Reporting Standards Committee of the HKICPA. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard and to replace the HKFRS 4 "Insurance contracts". The objective of HKFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. HKFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. The general model under HKFRS 17 requires an entity to measure an insurance contract at initial recognition at the total of the fulfilment cash flows and the contractual service margin. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. The Group is in the process of assessing the financial and disclosure impact on the adoption of the standard.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 4 Estimates

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

In preparing this Group Interim Financial Disclosure Statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's audited annual financial statements for the year ended 31 December 2019.

### 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.

**SHANGHAI COMMERCIAL BANK LIMITED**

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2020

(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 2020:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	30 June 2020		31 December 2019	
					Total assets	Total equity	Total assets	Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares	100% <sup>1</sup>	10	10	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares	60% <sup>2</sup>	15,309	14,888	15,798	15,476
Shacom Futures Limited	Hong Kong	Commodities trading Hong Kong	600,000 ordinary shares	100% <sup>1</sup>	110,370	55,858	97,224	54,557
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	100% <sup>1</sup>	2,845,813	11,183	2,788,841	2,102
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US\$1 each	100% <sup>1</sup>	23,081	2,667	24,431	2,516
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	100% <sup>1</sup>	5,571	5,571	5,595	5,595
Shacom Property (CA), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	100% <sup>1</sup>	2,709	2,709	2,711	2,711
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	100% <sup>1</sup>	1,081,910	(19)	1,081,974	37
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	100% <sup>1</sup>	26,977	18,989	27,008	20,001
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	100% <sup>1</sup>	7,103	1,749	7,716	1,507
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares	100% <sup>1</sup>	351,834	165,187	286,731	163,250
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	100% <sup>1</sup>	863	553	845	527
Paofong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	60% <sup>2</sup>	333,526	205,584	312,876	200,478
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100% <sup>1</sup>	2	(148)	5	(145)
Glory Step Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	191,162	(6,779)	191,187	(6,754)
Silver Wisdom Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	294,755	(19,523)	294,791	(19,487)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% <sup>1</sup>	333,228	142,083	344,314	152,951
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% <sup>1</sup>	334,686	143,487	345,253	153,856
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% <sup>1</sup>	335,887	144,797	347,258	155,970

<sup>1</sup> Ordinary share capital is held directly by the Bank.

<sup>2</sup> 60% of ordinary share capital is held directly by the Bank and 40% of ordinary share capital is held by non-controlling interests in equity.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 5 Basis of consolidation (Continued)

#### (b) Transactions with non-controlling interests

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

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

#### (c) Associates and joint ventures

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

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have right to the net assets of the arrangement.

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

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

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 6 Net interest income

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
<b>Interest income</b>		
Cash and balances with banks	278,671	374,046
Investment securities at amortised cost	14,846	20,101
Investment securities at fair value through other comprehensive income	839,703	864,622
Loans and advances to customers	1,989,244	1,957,176
Others	3,680	8,580
	<u>3,126,144</u>	<u>3,224,525</u>
Interest income on financial assets that are not measured at fair value through profit or loss	<u>3,126,144</u>	<u>3,224,525</u>
<b>Interest expense</b>		
Deposits and balances from banks	99,932	150,597
Deposits from customers	1,121,691	1,038,993
Subordinated debts	94,542	91,789
Lease liabilities	4,714	6,270
Others	1,482	4,790
	<u>1,322,361</u>	<u>1,292,439</u>
Interest expense on financial liabilities that are not measured at fair value through profit or loss	<u>1,322,361</u>	<u>1,292,439</u>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 7 Net fee and commission income

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
<b>Fee and commission income</b>		
Bills	33,431	44,419
Nominees, custodian and securities brokerage	123,185	89,781
Investment products	72,085	69,947
Remittance	29,717	30,224
Credit cards	18,366	25,452
Retail banking	25,459	23,528
Insurance	23,267	19,320
Loans and advances and facility fees	101,334	160,226
Trust and other commissions	1,540	1,925
Total fee and commission income	428,384	464,822
Less: fee and commission expense	(27,080)	(27,071)
Net fee and commission income	401,304	437,751
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	153,131	230,097
– fee and commission expense	4,652	5,444
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	10,043	11,033

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.

### 8 Net trading income

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Foreign exchange	109,608	114,182
Interest rate instruments	2,060	14,103
Equities	(1,884)	1,729
Other trading income	9,966	4,237
	119,750	134,251

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

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 9 Other operating income

	<b>Six months ended 30 June 2020 (unaudited)</b>	Six months ended 30 June 2019 (unaudited)
Gross rental income from investment properties	35,855	41,583
Net (losses)/gains from disposal of equipment	(25)	46
Others	<u>38,174</u>	<u>37,302</u>
	<u><b>74,004</b></u>	<u><b>78,931</b></u>

Direct operating expenses arising from investment properties of HK\$55,000 (six months ended 30 June 2019: nil) are included in premises management expenses (Note 11).

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

	<b>Six months ended 30 June 2020 (unaudited)</b>	Six months ended 30 June 2019 (unaudited)
Insurance premium revenue	28,369	30,608
Insurance premium ceded to reinsurers	<u>(6,150)</u>	<u>(6,025)</u>
	<u><b>22,219</b></u>	<u><b>24,583</b></u>

The related net insurance claims incurred and movement in policyholders' liabilities of HK\$16,072,000 (six months ended 30 June 2019: HK\$16,654,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK\$780,000 (six months ended 30 June 2019: HK\$1,138,000).



## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 11 Operating expenses

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Auditor's remuneration		
Audit services (Note a)	4,590	4,971
Non-audit and other services (Note b)	2,443	2,252
Premises management expenses	22,858	22,243
Depreciation expenses		
Properties and equipment	55,436	49,313
Right-of-use assets	61,747	62,777
Investment properties	4,447	4,447
Employee benefit expenses		
Wages and salaries and other costs (Note c)	476,177	466,847
Pension costs – defined contribution schemes	33,795	33,764
Expenses relating to short-term and low-value leases	1,186	1,414
Information technology and communications	36,117	39,182
Legal and consultancy	8,376	4,542
Printing, stationery and postage	11,246	11,054
Promotion and advertising costs	20,267	27,244
Others	60,025	102,244
	<b>798,710</b>	<b>832,294</b>

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

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

Note c: Employee benefit expenses include directors' emoluments. The number of employees of the Group as at 30 June 2020 was 1,864 (30 June 2019: 1,809).

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 12 Credit impairment losses

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Loans and advances to customers	78,797	53,393
Balances with banks and placements with banks	1,193	(192)
Investment securities	6,682	(720)
Other assets	801	355
Loan commitments and financial guarantee contracts	6,114	2,577
	<u>93,587</u>	<u>55,413</u>

The credit impairment losses made during the first half of 2020 have taken into account the macroeconomic forecast scenarios including local social unrest, global COVID-19 outbreak and US-China trade tension which resulted in weakening parameters such as GDP growth and unemployment rate in the affected regions where the Bank has activities in. Furthermore, expected credit losses arising from potential worsening of credit quality of the customers in vulnerable sectors of the economy have been accounted for.

## 13 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits for the six months ended 30 June 2020. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2020 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 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Current income tax:		
– Hong Kong profits tax	184,104	215,724
– Overseas taxation	145,498	138,140
– Over provisions in respect of prior years	(442)	(483)
Total current income tax	<u>329,160</u>	<u>353,381</u>
Deferred income tax:		
– Hong Kong deferred tax	(5,259)	(3,497)
– Overseas deferred tax	8,320	9,344
Total deferred income tax	<u>3,061</u>	<u>5,847</u>
Income tax expense	<u>332,221</u>	<u>359,228</u>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 14 Cash and balances with banks

	30 June 2020 (unaudited)	31 December 2019 (audited)
Cash in hand	736,898	762,741
Balances with central banks and Hong Kong Monetary Authority	1,000,494	2,779,502
Balances with banks	<u>26,430,164</u>	<u>30,586,874</u>
	28,167,556	34,129,117
Less: Stage 1 impairment allowances	<u>(1,322)</u>	<u>(503)</u>
	<u><u>28,166,234</u></u>	<u><u>34,128,614</u></u>

Included in the above amounts, HK\$286,129,000 (31 December 2019: HK\$247,051,000) were deposited in central banks or designated banks as at 30 June 2020, to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business.

### 15 Placements with banks

	30 June 2020 (unaudited)	31 December 2019 (audited)
Placements with banks maturing between 1 and 12 months	9,953,409	7,090,662
Less: Impairment allowances		
– Stage 1	(478)	(106)
– Stage 2	<u>(2)</u>	<u>–</u>
	<u><u>9,952,929</u></u>	<u><u>7,090,556</u></u>

Included in the above amounts, HK\$294,840,000 (31 December 2019: HK\$365,289,000) were deposited with designated banks in the People's Republic of China as at 30 June 2020, to comply with the local statutory requirements.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 16 Loans and advances to customers

	30 June 2020 (unaudited)	31 December 2019 (audited)
Gross loans and advances to customers	<b>99,851,319</b>	99,187,091
Less: Impairment allowances		
– Stage 1	<b>(379,083)</b>	(302,185)
– Stage 2	<b>(35,089)</b>	(73,280)
– Stage 3	<b>(38,578)</b>	(37,935)
	<b>99,398,569</b>	98,773,691
Gross trade bills and other eligible bills, included within gross loans and advances to customers	<b>692,184</b>	373,054
Less: Impairment allowances on trade bills		
– Stage 1	<b>(764)</b>	(227)
– Stage 2	<b>(87)</b>	(182)
	<b>691,333</b>	372,645

The Group accepted listed securities at fair value of HK\$2,922,716,000 as at 30 June 2020 (31 December 2019: HK\$3,968,969,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 16 Loans and advances to customers (Continued)

(a) Loans and advances (excluding trade bills and other eligible bills) by industry sector

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

	30 June 2020 (unaudited)		31 December 2019 (audited)	
	Balance	% covered by collateral	Balance	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	3,498,275	58%	4,870,738	53%
– Property investment	6,750,655	92%	6,878,804	93%
– Financial concerns	2,156,643	7%	2,176,346	8%
– Stockbrokers	818,642	54%	460,367	20%
– Wholesale and retail trade	1,981,531	47%	2,199,875	47%
– Manufacturing	1,195,472	67%	1,253,394	71%
– Transport and transport equipment	405,258	98%	415,212	96%
– Recreational activities	501,883	83%	526,287	85%
– Information technology – telecommunication	5,040	99%	85,777	70%
– Hotels, boarding houses and catering	2,147,663	91%	1,912,016	90%
– Others	13,985,288	58%	14,030,765	58%
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	76,719	100%	82,168	100%
– Loans for the purchase of other residential properties	4,402,443	100%	4,066,948	100%
– Credit card advances	160,072	0%	195,944	0%
– Others	6,982,569	96%	7,205,968	93%
Trade financing	8,210,781	63%	7,894,868	68%
Loans for use outside Hong Kong	45,880,201	85%	44,558,560	86%
	<b>99,159,135</b>	<b>78%</b>	<b>98,814,037</b>	<b>77%</b>

As at 30 June 2020 and 31 December 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.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 16 Loans and advances to customers (Continued)

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

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

As at 30 June 2020 (unaudited)	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 impairment allowances	Total Stage 1 and Stage 2 impairment allowances
Hong Kong	62,160,998	63,515	22,104	16,545	342,488
Mainland China	7,141,617	59,412	47,675	22,032	14,945
United States	24,992,937	22,423	–	1	38,413
Others	4,863,583	2,792	2,700	–	17,475
	<u>99,159,135</u>	<u>148,142</u>	<u>72,479</u>	<u>38,578</u>	<u>413,321</u>
% of total loans and advances to customers		<u>0.15</u>			
Fair value of collateral		<u>391,433</u>			

  

As at 31 December 2019 (audited)	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 impairment allowances	Total Stage 1 and Stage 2 impairment allowances
Hong Kong	62,849,908	496,248	427,878	20,500	311,987
Mainland China	7,383,429	60,507	44,913	17,435	11,155
United States	24,185,044	6,675	6,675	–	38,650
Others	4,395,656	3,348	–	–	13,264
	<u>98,814,037</u>	<u>566,778</u>	<u>479,466</u>	<u>37,935</u>	<u>375,056</u>
% of total loans and advances to customers		<u>0.57</u>			
Fair value of collateral		<u>1,389,110</u>			

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 16 Loans and advances to customers (Continued)

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

	30 June 2020 (unaudited)		31 December 2019 (audited)	
		% of loans and advances to customers		% of loans and advances to customers
Balances which have been overdue for:				
– 6 months or less but over 3 months	4,885	–	46,975	0.05
– 1 year or less but over 6 months	39,868	0.04	2,049	–
– over 1 year	<u>27,726</u>	<u>0.03</u>	<u>430,442</u>	<u>0.44</u>
	<u>72,479</u>	<u>0.07</u>	<u>479,466</u>	<u>0.49</u>
Current market value of collateral	<u>184,779</u>		<u>1,184,434</u>	
Covered portion by collateral	<u>59,446</u>		<u>459,602</u>	
Uncovered portion by collateral	<u>13,033</u>		<u>19,864</u>	
Impairment allowances	<u>35,286</u>		<u>34,674</u>	

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

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

	30 June 2020 (unaudited)		31 December 2019 (audited)	
		% of loans and advances to customers		% of loans and advances to customers
Rescheduled loans and advances	<u>26,950</u>	<u>0.03</u>	<u>17,768</u>	<u>0.02</u>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 17 Derivative financial instruments

As at 30 June 2020 (unaudited)	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	239,217,940	696,915	(635,506)
Equity contracts	24,436	242	–
Total recognised derivative assets/(liabilities)		697,157	(635,506)

As at 31 December 2019 (audited)	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	105,233,452	285,089	(292,599)
Equity contracts	–	–	–
Total recognised derivative assets/(liabilities)		285,089	(292,599)

## Credit risk weighted amount

	30 June 2020 (unaudited)	31 December 2019 (audited)
Exchange rate contracts	2,589,993	1,217,716
Equity contracts	1,708	–
	2,591,701	1,217,716

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 2020 and 31 December 2019 are the amounts that have been calculated in accordance with the Banking (Capital) Rules.

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



## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 17 Derivative financial instruments (Continued)

The Group uses the following derivative strategies:

- Trading purposes (customer needs)

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

- Trading purposes (own account)

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

### 18 Properties for sale

	<b>30 June 2020 (unaudited)</b>	31 December 2019 (audited)
Property development		
Leasehold land held for development for sale	381,087	382,598
Building development cost	105,592	66,864
	<b>486,679</b>	449,462

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2020, the net book amount of land and building incurred for this project were HK\$622,944,000 (31 December 2019: HK\$561,609,000), of which HK\$486,679,000 (31 December 2019: HK\$449,462,000) were classified as properties for sale while the remaining HK\$136,265,000 (31 December 2019: HK\$112,147,000) as bank premises under development (Note 19) in accordance with the redevelopment plan.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 19 Properties and equipment

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development		Right-of-use assets	Total
				Leasehold land	Development cost		
As at 1 January 2019							
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	<u>1,230,880</u>	<u>760,324</u>	<u>237,528</u>	<u>95,540</u>	<u>8,437</u>	<u>–</u>	<u>2,332,709</u>
Year ended 31 December 2019							
Opening net book amount	1,230,880	760,324	237,528	95,540	8,437	–	2,332,709
Change in accounting policy	–	–	–	–	–	349,689	349,689
Additions	–	32,755	63,620	–	8,279	136,833	241,487
Disposals/write-off/expiry							
Cost	–	–	(12,624)	–	–	(31,823)	(44,447)
Accumulated depreciation	–	–	12,517	–	–	31,707	44,224
Depreciation charge	(17,432)	(24,923)	(54,989)	(109)	–	(124,960)	(222,413)
Exchange adjustments	–	74	(49)	–	–	(1,260)	(1,235)
Closing net book amount	<u>1,213,448</u>	<u>768,230</u>	<u>246,003</u>	<u>95,431</u>	<u>16,716</u>	<u>360,186</u>	<u>2,700,014</u>
As at 31 December 2019 (audited)							
Cost	1,391,652	1,075,785	888,175	96,278	16,716	691,488	4,160,094
Accumulated depreciation	(178,204)	(307,555)	(642,172)	(847)	–	(331,302)	(1,460,080)
Net book amount	<u>1,213,448</u>	<u>768,230</u>	<u>246,003</u>	<u>95,431</u>	<u>16,716</u>	<u>360,186</u>	<u>2,700,014</u>
Six months ended 30 June 2020							
Opening net book amount	<b>1,213,448</b>	<b>768,230</b>	<b>246,003</b>	<b>95,431</b>	<b>16,716</b>	<b>360,186</b>	<b>2,700,014</b>
Additions	–	2,176	34,128	–	15,182	41,115	92,601
Transfers from properties for sale (Note 18)							
Cost	–	–	–	1,519	7,480	–	8,999
Accumulated depreciation	–	–	–	(8)	–	–	(8)
Disposals/write-off/expiry							
Cost	–	–	(7,518)	–	–	(39,986)	(47,504)
Accumulated depreciation	–	–	7,343	–	–	39,986	47,329
Depreciation charge	(8,716)	(12,450)	(34,215)	(55)	–	(61,747)	(117,183)
Exchange adjustments	–	(1,714)	(84)	–	–	(393)	(2,191)
Closing net book amount	<u><b>1,204,732</b></u>	<u><b>756,242</b></u>	<u><b>245,657</b></u>	<u><b>96,887</b></u>	<u><b>39,378</b></u>	<u><b>339,161</b></u>	<u><b>2,682,057</b></u>
As at 30 June 2020 (unaudited)							
Cost	<b>1,391,652</b>	<b>1,075,394</b>	<b>913,353</b>	<b>97,797</b>	<b>39,378</b>	<b>691,620</b>	<b>4,209,194</b>
Accumulated depreciation	<b>(186,920)</b>	<b>(319,152)</b>	<b>(667,696)</b>	<b>(910)</b>	<b>–</b>	<b>(352,459)</b>	<b>(1,527,137)</b>
Net book amount	<u><b>1,204,732</b></u>	<u><b>756,242</b></u>	<u><b>245,657</b></u>	<u><b>96,887</b></u>	<u><b>39,378</b></u>	<u><b>339,161</b></u>	<u><b>2,682,057</b></u>

The Group has undertaken a project to redevelop the properties located in West Point. As at 30 June 2020, the net book amount of land and building incurred for this project were HK\$622,944,000 (31 December 2019: HK\$561,609,000), of which HK\$486,679,000 (31 December 2019: HK\$449,462,000) were classified as properties for sale (Note 18) while the remaining HK\$136,265,000 (31 December 2019: HK\$112,147,000) as bank premises under development in accordance with the redevelopment plan.

As at 30 June 2020, interests in freehold land outside Hong Kong amounted to HK\$33,036,000 (31 December 2019: HK\$34,131,000) were included as bank premises above.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 20 Investment properties

	Leasehold land	Buildings	Total
As at 1 January 2019			
Cost	725,305	332,204	1,057,509
Accumulated depreciation	<u>(9,539)</u>	<u>(22,078)</u>	<u>(31,617)</u>
Net book amount	<u>715,766</u>	<u>310,126</u>	<u>1,025,892</u>
Year ended 31 December 2019			
Opening net book amount	715,766	310,126	1,025,892
Additions	–	150	150
Depreciation charge	<u>(866)</u>	<u>(8,028)</u>	<u>(8,894)</u>
Closing net book amount	<u>714,900</u>	<u>302,248</u>	<u>1,017,148</u>
As at 31 December 2019 (audited)			
Cost	725,305	332,354	1,057,659
Accumulated depreciation	<u>(10,405)</u>	<u>(30,106)</u>	<u>(40,511)</u>
Net book amount	<u>714,900</u>	<u>302,248</u>	<u>1,017,148</u>
Six months ended 30 June 2020			
Opening net book amount	<b>714,900</b>	<b>302,248</b>	<b>1,017,148</b>
Additions	–	2,272	2,272
Depreciation charge	<u>(432)</u>	<u>(4,015)</u>	<u>(4,447)</u>
Closing net book amount	<u>714,468</u>	<u>300,505</u>	<u>1,014,973</u>
As at 30 June 2020 (unaudited)			
Cost	<b>725,305</b>	<b>334,626</b>	<b>1,059,931</b>
Accumulated depreciation	<u>(10,837)</u>	<u>(34,121)</u>	<u>(44,958)</u>
Net book amount	<u>714,468</u>	<u>300,505</u>	<u>1,014,973</u>

As at 30 June 2020, the Group's investment properties were valued at HK\$3,222,000,000 (31 December 2019: HK\$3,361,000,000) by an independent firm of Jones Lang LaSalle Limited (31 December 2019: Cushman & Wakefield Limited), who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The valuations were performed on an open market value basis.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

**20 Investment properties (Continued)**

Operating lease commitments as a lessor

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

	<b>30 June 2020</b> <b>(unaudited)</b>	31 December 2019 (audited)
Not later than 1 year	<b>64,874</b>	92,066
1 to 2 years	<b>48,027</b>	62,859
2 to 3 years	<b>12,825</b>	13,904
	<b>125,726</b>	168,829

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

**21 Deposits from customers**

	<b>30 June 2020</b> <b>(unaudited)</b>	31 December 2019 (audited)
Demand deposits and current accounts	<b>15,213,724</b>	15,060,867
Savings deposits	<b>44,709,447</b>	44,224,648
Time, call and notice deposits	<b>113,651,249</b>	112,763,783
Deposits from Hong Kong Government Exchange Fund	<b>387,525</b>	389,218
	<b>173,961,945</b>	172,438,516

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 22 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with banks

Balances with banks and placements with banks include inter-bank placements and are stated net of impairment allowances. The maturities of these financial assets are within one year. The carrying amount at the reporting date approximates their fair value.

(ii) Loans and advances to customers

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

(iii) Investment securities at amortised cost

The fair value for investment securities at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The fair value of investment securities at amortised cost is classified under Level 1 (30 June 2020: HK\$381,637,000; 31 December 2019: HK\$2,479,459,000) in the fair value hierarchy. Please refer to Note 22(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\$4,417,475,000 (31 December 2019: 4,430,988,000) is classified under Level 2 in the fair value hierarchy.

(b) Fair value hierarchy

Valuation governance

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

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

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

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes instruments such as over-the-counter derivative contracts, 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.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 22 Fair value of financial assets and liabilities (Continued)

## (b) Fair value hierarchy (Continued)

Recurring fair value measurement

As at 30 June 2020 (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	173,828	1,915,806	–	2,089,634
Equity securities	64,183	–	7,194	71,377
Others	2	–	–	2
Derivative financial instruments				
Exchange rate contracts	–	696,915	–	696,915
Equity contracts	242	–	–	242
Investment securities at fair value through other comprehensive income				
Debt securities	39,680,713	31,948,245	2,874	71,631,832
Equity securities	4,015,553	–	60,995	4,076,548
<b>Total Assets</b>	<b>43,934,521</b>	<b>34,560,966</b>	<b>71,063</b>	<b>78,566,550</b>
Derivative financial instruments				
Exchange rate contracts	–	635,506	–	635,506
<b>Total Liabilities</b>	<b>–</b>	<b>635,506</b>	<b>–</b>	<b>635,506</b>
As at 31 December 2019 (audited)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	–	1,853,440	–	1,853,440
Equity securities	20,391	–	7,194	27,585
Others	–	–	–	–
Derivative financial instruments				
Exchange rate contracts	–	285,089	–	285,089
Equity contracts	–	–	–	–
Investment securities at fair value through other comprehensive income				
Debt securities	33,689,617	33,147,116	2,874	66,839,607
Equity securities	4,657,821	–	61,118	4,718,939
<b>Total Assets</b>	<b>38,367,829</b>	<b>35,285,645</b>	<b>71,186</b>	<b>73,724,660</b>
Derivative financial instruments				
Exchange rate contracts	–	292,599	–	292,599
<b>Total Liabilities</b>	<b>–</b>	<b>292,599</b>	<b>–</b>	<b>292,599</b>

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

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 22 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 instrument.

Level 2 fair values of exchange rate contracts 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 effected by the price to book ratio of appropriate comparables or dividend growth rate.

If the significant unobservable inputs would be shifted by +/- 5%, the impact on other comprehensive income would be increased by HK\$618,000 (31 December 2019: HK\$3,584,000) or decreased by HK\$606,000 (31 December 2019: HK\$3,289,000) and profit or loss would be increased/decreased by HK\$360,000 (31 December 2019: HK\$360,000) respectively.

The following table presents the changes in level 3 instruments for the periods ended 30 June 2020 and 31 December 2019 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 2019	6,017	6,017	60,415	2,874	63,289
Total gains					
– Profit	1,177	1,177	–	–	–
– Other comprehensive income	–	–	926	–	926
Exchange adjustments	–	–	(223)	–	(223)
As at 31 December 2019 (audited)	<u>7,194</u>	<u>7,194</u>	<u>61,118</u>	<u>2,874</u>	<u>63,992</u>
As at 1 January 2020	<b>7,194</b>	<b>7,194</b>	<b>61,118</b>	<b>2,874</b>	<b>63,992</b>
Total gains					
– Profit	–	–	–	–	–
– Other comprehensive income	–	–	–	–	–
Exchange adjustments	–	–	(123)	–	(123)
As at 30 June 2020 (unaudited)	<u>7,194</u>	<u>7,194</u>	<u>60,995</u>	<u>2,874</u>	<u>63,869</u>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 23 Subordinated debts

	30 June 2020 (unaudited)	31 December 2019 (audited)
US\$250 million fixed rate subordinated notes issued due 2027 at amortised cost (Note a)	1,926,422	1,935,108
US\$300 million fixed rate subordinated notes issued due 2029 at amortised cost (Note b)	<u>2,312,630</u>	<u>2,322,539</u>
	<u><b>4,239,052</b></u>	<u><b>4,257,647</b></u>

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



## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 24 Deferred income tax

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

Deferred income tax assets	Impairment allowances	Accelerated tax depreciation	Fair value losses on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2019	66,033	(38,686)	23,085	23,258	73,690
Credited/(charged) to the statement of profit or loss	5,670	(10,328)	–	8,075	3,417
Exchange adjustments	(336)	(77)	–	(106)	(519)
Charged to equity	–	–	(67,341)	–	(67,341)
Reclassified (to)/from deferred income tax liabilities	(56,422)	45,150	44,253	(14,113)	18,868
<b>As at 31 December 2019 (audited)</b>	<b>14,945</b>	<b>(3,941)</b>	<b>(3)</b>	<b>17,114</b>	<b>28,115</b>
Credited/(charged) to the statement of profit or loss	5,412	(2,438)	–	(11,322)	(8,348)
Exchange adjustments	(676)	285	–	(60)	(451)
Reclassified from/(to) deferred income tax liabilities	3	1	(3)	–	1
<b>As at 30 June 2020 (unaudited)</b>	<b>19,684</b>	<b>(6,093)</b>	<b>(6)</b>	<b>5,732</b>	<b>19,317</b>

Deferred income tax liabilities	Impairment allowances	Accelerated tax depreciation	Fair value gains on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2019	–	(27)	–	–	(27)
Charged to the statement of profit or loss	–	(6)	–	–	(6)
Reclassified from/(to) deferred income tax assets	56,422	(45,150)	(44,253)	14,113	(18,868)
<b>As at 31 December 2019 (audited)</b>	<b>56,422</b>	<b>(45,183)</b>	<b>(44,253)</b>	<b>14,113</b>	<b>(18,901)</b>
Credited/(charged) to the statement of profit or loss	7,717	(2,733)	–	303	5,287
Charged to equity	–	–	(49,104)	–	(49,104)
Reclassified (to)/from deferred income tax assets	(3)	(1)	3	–	(1)
<b>As at 30 June 2020 (unaudited)</b>	<b>64,136</b>	<b>(47,917)</b>	<b>(93,354)</b>	<b>14,416</b>	<b>(62,719)</b>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 25 Reserves attributable to equity holders

	Regulatory reserve (Note)	Investment revaluation reserve	General and other reserves	Total
As at 1 January 2019	736,735	2,563,779	7,203,109	10,503,623
Investment securities at fair value through other comprehensive income	–	682,298	–	682,298
Currency translation difference arising from overseas operations	(1,441)	–	(23,795)	(25,236)
Share of reserves of associates and joint venture	–	18,098	134	18,232
Transfer from retained earnings	200,000	–	–	200,000
As at 31 December 2019 (audited)	<u>935,294</u>	<u>3,264,175</u>	<u>7,179,448</u>	<u>11,378,917</u>
As at 1 January 2020	<b>935,294</b>	<b>3,264,175</b>	<b>7,179,448</b>	<b>11,378,917</b>
Investment securities at fair value through other comprehensive income	–	(379,279)	–	(379,279)
Currency translation difference arising from overseas operations	(1,273)	–	(22,447)	(23,720)
Share of reserves of associates and joint venture	–	(15,860)	51	(15,809)
As at 30 June 2020 (unaudited)	<u><b>934,021</b></u>	<u><b>2,869,036</b></u>	<u><b>7,157,052</b></u>	<u><b>10,960,109</b></u>

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

## 26 Cash and cash equivalents and other cash flow information

(a) Reconciliation of liabilities arising from financing activities

	Subordinated debts	
	2020 (unaudited)	2019 (unaudited)
Balance as at 1 January	4,257,647	1,945,079
Cash inflow from issue of subordinated debts net of cost	–	2,343,779
Non-cash changes:		
– Foreign exchange movement	(18,886)	(18,864)
– Amortisation of discount and issuance cost	291	34
<b>Balance as at 30 June</b>	<u><b>4,239,052</b></u>	<u><b>4,270,028</b></u>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 26 Cash and cash equivalents and other cash flow information (Continued)

(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 which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

	30 June 2020 (unaudited)	30 June 2019 (unaudited)
Cash and balances with banks	27,405,544	29,942,438
Placements with banks	1,708,582	1,734,526
Debt securities – Exchange Fund Bills	4,996,102	7,872,054
	<u>34,110,228</u>	<u>39,549,018</u>

### 27 Contingent liabilities and commitments

(a) Credit commitments

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

	30 June 2020 (unaudited)	31 December 2019 (audited)
Contract amounts		
Direct credit substitutes	2,283,373	2,411,445
Trade-related contingencies	2,102,187	2,243,403
Other commitments with an original maturity of:		
– under 1 year	528,359	1,215,399
– 1 year and over	9,860,249	10,168,005
– unconditionally cancellable	35,220,851	36,989,186
	<u>49,995,019</u>	<u>53,027,438</u>
Credit risk weighted amounts	<u>6,881,708</u>	<u>7,361,624</u>

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

(b) Capital commitments

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

	30 June 2020 (unaudited)	31 December 2019 (audited)
Contracted but not provided for	<u>527,196</u>	<u>562,769</u>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 27 Contingent liabilities and commitments (Continued)

## (c) Other contingent liabilities

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

## 28 Maturity analysis

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

As at 30 June 2020 (unaudited)	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
<b>Assets</b>								
Cash and balances with banks	7,387,898	20,778,336	-	-	-	-	-	28,166,234
Placements with banks	-	-	4,177,896	5,775,033	-	-	-	9,952,929
Loans and advances to customers	4,470,009	7,980,222	8,993,788	24,229,756	35,948,854	17,355,027	420,913	99,398,569
Financial assets at fair value through profit or loss	-	-	1,675	26,956	166,471	1,894,532	71,379	2,161,013
Derivative financial instruments	-	106,424	153,273	198,021	239,439	-	-	697,157
Investment securities at fair value through other comprehensive income	-	4,903,643	14,182,814	21,350,185	26,425,526	4,766,790	4,079,422	75,708,380
Investment securities at amortised cost	-	-	124,031	256,864	-	-	-	380,895
Properties for sale	-	-	-	-	486,679	-	-	486,679
Investments in associates and joint venture	-	-	-	-	-	-	398,731	398,731
Properties and equipment	-	10,129	19,183	74,713	161,365	73,771	2,342,896	2,682,057
Investment properties	-	-	-	-	-	-	1,014,973	1,014,973
Deferred income tax assets	-	-	-	-	-	-	19,317	19,317
Other assets	347,590	1,483,493	126,735	290,076	323,095	61,478	5,058	2,637,525
<b>Total assets</b>	<b>12,205,497</b>	<b>35,262,247</b>	<b>27,779,395</b>	<b>52,201,604</b>	<b>63,751,429</b>	<b>24,151,598</b>	<b>8,352,689</b>	<b>223,704,459</b>
<b>Liabilities</b>								
Deposits and balances from banks	1,193,192	4,744,047	2,357,531	1,269,990	-	-	-	9,564,760
Deposits from customers	61,739,421	39,962,142	48,783,226	23,294,521	182,635	-	-	173,961,945
Derivative financial instruments	-	90,854	136,025	169,236	239,391	-	-	635,506
Subordinated debts	-	-	-	-	-	4,239,052	-	4,239,052
Other liabilities	903,570	2,408,016	344,268	513,057	200,955	74,987	881	4,445,734
Current income tax liabilities	-	-	-	277,812	-	-	-	277,812
Deferred income tax liabilities	-	-	-	-	-	-	62,719	62,719
<b>Total liabilities</b>	<b>63,836,183</b>	<b>47,205,059</b>	<b>51,621,050</b>	<b>25,524,616</b>	<b>622,981</b>	<b>4,314,039</b>	<b>63,600</b>	<b>193,187,528</b>
<b>Net liquidity gap</b>	<b>(51,630,686)</b>	<b>(11,942,812)</b>	<b>(23,841,655)</b>	<b>26,676,988</b>	<b>63,128,448</b>	<b>19,837,559</b>	<b>8,289,089</b>	<b>30,516,931</b>
Of which lease liabilities included in:								
Other liabilities	-	9,940	18,834	75,474	178,567	74,987	-	357,802

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 28 Maturity analysis (Continued)

As at 31 December 2019 (audited)	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
<b>Assets</b>								
Cash and balances with banks	8,634,242	25,494,372	-	-	-	-	-	34,128,614
Placements with banks	-	-	3,138,599	3,951,957	-	-	-	7,090,556
Loans and advances to customers	5,493,495	5,566,299	10,536,189	22,349,213	36,015,386	18,201,327	611,782	98,773,691
<b>Financial assets at fair value</b>								
through profit or loss	-	2,277	-	7,898	18,179	1,825,087	27,584	1,881,025
Derivative financial instruments	-	48,398	53,318	127,613	55,760	-	-	285,089
<b>Investment securities at fair value through other comprehensive income</b>								
Investment securities at amortised cost	-	4,259,517	10,597,303	22,351,737	25,707,988	3,920,188	4,721,813	71,558,546
Investment securities at amortised cost	-	31,104	1,009,042	1,417,323	23,455	-	-	2,480,924
Properties for sale	-	-	-	-	449,462	-	-	449,462
<b>Investments in associates and joint venture</b>								
Investments in associates and joint venture	-	-	-	-	-	-	417,663	417,663
Properties and equipment	-	10,318	19,363	76,806	175,116	78,583	2,339,828	2,700,014
Investment properties	-	-	-	-	-	-	1,017,148	1,017,148
Deferred income tax assets	-	-	-	-	-	-	28,115	28,115
Other assets	197,993	789,679	118,179	279,506	348,809	75,787	4,314	1,814,267
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<b>Total assets</b>	<b>14,325,730</b>	<b>36,201,964</b>	<b>25,471,993</b>	<b>50,562,053</b>	<b>62,794,155</b>	<b>24,100,972</b>	<b>9,168,247</b>	<b>222,625,114</b>
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<b>Liabilities</b>								
Deposits and balances from banks	1,260,751	6,018,335	3,585,042	813,482	-	-	-	11,677,610
Deposits from customers	60,399,842	39,696,628	43,196,509	28,885,935	259,602	-	-	172,438,516
Derivative financial instruments	-	49,274	52,804	134,761	55,760	-	-	292,599
Subordinated debts	-	-	-	-	-	4,257,647	-	4,257,647
Other liabilities	311,291	1,135,109	374,909	685,440	226,262	80,262	610	2,813,883
Current income tax liabilities	-	407,914	93,780	-	-	-	-	501,694
Deferred income tax liabilities	-	-	-	-	-	-	18,901	18,901
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<b>Total liabilities</b>	<b>61,971,884</b>	<b>47,307,260</b>	<b>47,303,044</b>	<b>30,519,618</b>	<b>541,624</b>	<b>4,337,909</b>	<b>19,511</b>	<b>192,000,850</b>
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<b>Net liquidity gap</b>	<b>(47,646,154)</b>	<b>(11,105,296)</b>	<b>(21,831,051)</b>	<b>20,042,435</b>	<b>62,252,531</b>	<b>19,763,063</b>	<b>9,148,736</b>	<b>30,624,264</b>
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<b>Of which lease liabilities included in:</b>								
Other liabilities	-	9,914	18,793	74,979	192,575	80,262	-	376,523
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## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 29 Related party transactions

A number of banking transactions were entered into with related parties by the Group in the normal course of business and at arm's length basis. 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 2020 (unaudited)	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note)	Other related parties	Total
Aggregate amounts outstanding at the period end					
– Loans and advances	–	–	114,540	–	114,540
– Cash and balances with banks	4,712	–	–	311,237	315,949
– Deposits and balances from banks and customers	501,060	767,085	932,709	1,751,491	3,952,345
– Investment securities at fair value through other comprehensive income	136,587	–	–	80,317	216,904
– Stage 1 and Stage 2 impairment allowances	–	3	194	30	227
– Contingent liabilities and other commitments	–	2,000	150,508	–	152,508
<b>Six months ended 30 June 2020 (unaudited)</b>					
Interest income received from related parties	51	–	2,528	1,894	4,473
Interest expenses paid to related parties	2,966	2,915	6,436	20,961	33,278
Net fee and commission income/(expense) from/(to) related parties	(2,696)	28,660	–	(75)	25,889
Net other operating income/(expense) from/(to) related parties	17	(2,059)	(150)	(3,242)	(5,434)
	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note)	Other related parties	Total
As at 31 December 2019 (audited)					
Aggregate amounts outstanding at the year end					
– Loans and advances	–	–	580,528	–	580,528
– Cash and balances with banks	4,676	–	–	82,831	87,507
– Deposits and balances from banks and customers	473,908	578,367	2,058,623	3,480,544	6,591,442
– Investment securities at fair value through other comprehensive income	153,480	–	–	–	153,480
– Stage 1 and Stage 2 impairment allowances	–	1	914	–	915
– Contingent liabilities and other commitments	–	2,000	1,319,224	–	1,321,224
<b>Six months ended 30 June 2019 (unaudited)</b>					
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
Net other operating income/(expense) from/(to) related parties	17	(1,453)	(150)	(1,845)	(3,431)

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, Directors or their close family members.

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 29 Related party transactions (Continued)

#### Key management personnel compensation

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

	<b>Six months ended 30 June 2020 (unaudited)</b>	Six months ended 30 June 2019 (unaudited)
Salaries and other short-term employee benefits	<b>35,064</b>	29,195

### 30 Segment reporting

#### (a) By operating segment

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

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

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

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

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

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

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

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 30 Segment reporting (Continued)

(a) By operating segment (Continued)

	Six months ended 30 June 2020 (unaudited)				
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	1,323,352	29,295	404,444	46,692	1,803,783
Non-interest income	149,923	41,929	216,308	292,423	700,583
Operating income	1,473,275	71,224	620,752	339,115	2,504,366
Operating expenses	(436,545)	(43,114)	(51,876)	(267,175)	(798,710)
Operating profit before credit impairment losses	1,036,730	28,110	568,876	71,940	1,705,656
Credit impairment losses	(82,910)	(2,864)	(7,708)	(105)	(93,587)
Operating profit after credit impairment losses	953,820	25,246	561,168	71,835	1,612,069
Share of net losses of associates and joint venture	–	–	–	(988)	(988)
Profit before income tax (after taking into account internal fund transfers and cost allocation)	953,820	25,246	561,168	70,847	1,611,081
Income tax expense	234,451	2,970	84,201	10,599	332,221
Depreciation expenses	45,327	4,928	4,365	67,010	121,630
<b>As at 30 June 2020 (unaudited):</b>					
Total assets	99,812,945	3,983,195	114,200,070	5,708,249	223,704,459
Total liabilities	175,114,243	75,765	16,478,603	1,518,917	193,187,528

	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
Non-interest income	216,334	52,819	159,081	423,498	851,732
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)
Operating profit before credit impairment losses	1,152,700	65,152	550,952	182,720	1,951,524
Credit impairment losses	(55,207)	(1,013)	959	(152)	(55,413)
Operating profit after credit impairment losses	1,097,493	64,139	551,911	182,568	1,896,111
Share of net profits of associates and joint venture	–	–	–	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
<b>As at 31 December 2019 (audited):</b>					
Total assets	99,737,363	3,618,689	113,258,316	6,010,746	222,625,114
Total liabilities	173,887,503	86,828	16,471,637	1,554,882	192,000,850



## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

### 30 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 2020 (unaudited)			Six months ended 30 June 2020 (unaudited)		
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	190,810,716	180,249,936	41,732,688	1,962,044	1,154,934	93,749
United States	27,864,111	10,723,330	8,155,056	502,191	430,249	958
United Kingdom	5,029,632	2,214,262	107,275	40,131	25,898	166
<b>Total</b>	<b>223,704,459</b>	<b>193,187,528</b>	<b>49,995,019</b>	<b>2,504,366</b>	<b>1,611,081</b>	<b>94,873</b>

	As at 31 December 2019 (audited)			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	190,562,725	175,150,782	43,887,734	2,250,324	1,476,380	25,097
United States	27,056,085	13,895,206	8,992,640	493,291	421,267	244
United Kingdom	5,006,304	2,954,862	147,064	40,203	23,025	82
<b>Total</b>	<b>222,625,114</b>	<b>192,000,850</b>	<b>53,027,438</b>	<b>2,783,818</b>	<b>1,920,672</b>	<b>25,423</b>

## NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

## 31 International claims

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

As at 30 June 2020 (unaudited)	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	16,766,000	356,000	1,937,000	1,106,000	20,165,000
Offshore centres	7,586,000	–	1,741,000	25,997,000	35,324,000
– of which Hong Kong	4,693,000	–	1,010,000	22,532,000	28,235,000
Developing Asia-Pacific	42,967,000	71,000	205,000	8,794,000	52,037,000
– of which China	30,727,000	71,000	205,000	6,883,000	37,886,000
– of which Chinese Taipei	10,147,000	–	–	1,864,000	12,011,000

As at 31 December 2019 (audited)	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	21,027,000	315,000	1,987,000	718,000	24,047,000
Offshore centres	5,969,000	63,000	3,967,000	27,560,000	37,559,000
– of which Hong Kong	4,009,000	63,000	1,953,000	22,778,000	28,803,000
Developing Asia-Pacific	45,486,000	194,000	252,000	8,203,000	54,135,000
– of which China	33,672,000	194,000	252,000	6,689,000	40,807,000
– of which Chinese Taipei	9,177,000	–	–	1,395,000	10,572,000

## REGULATORY DISCLOSURES (UNAUDITED)

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

### 1 Key prudential ratios

		30 June 2020	31 March 2020	31 December 2019	30 September 2019	30 June 2019
<b>Regulatory capital (amount)</b>						
1	Common Equity Tier 1 (CET1)	28,092,913	28,155,510	27,572,305	26,887,182	26,160,646
2	Tier 1	28,092,913	28,155,510	27,572,305	26,887,182	26,160,646
3	Total capital	33,711,395	33,736,377	33,162,681	32,506,175	31,660,713
<b>Risk Weighted Amounts (RWA)</b>						
4	Total RWA	173,220,973	172,620,613	169,830,908	164,933,019	165,578,250
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>						
5	CET1 ratio (%)	16.2%	16.3%	16.2%	16.3%	15.8%
6	Tier 1 ratio (%)	16.2%	16.3%	16.2%	16.3%	15.8%
7	Total capital ratio (%)	19.5%	19.5%	19.5%	19.7%	19.1%
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>						
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.6%	0.6%	1.3%	1.6%	1.6%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total AI-specific CET1 buffer requirements (%)	3.1%	3.1%	3.8%	4.1%	4.1%
12	CET1 available after meeting the AI's minimum capital requirements (%)	10.2%	10.3%	10.2%	10.3%	9.8%
<b>Basel III leverage ratio</b>						
13	Total leverage ratio (LR) exposure measure	236,694,876	235,285,102	233,630,690	225,238,494	228,115,200
14	LR (%)	11.9%	12.0%	11.8%	11.9%	11.5%
<b>Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)</b>						
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	56.8%	57.1%	57.3%	53.6%	49.9%
<b>Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)</b>						
	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 (%)	205.9%	204.8%	194.0%	181.3%	178.3%

Footnote:

N/A Not applicable

## REGULATORY DISCLOSURES (UNAUDITED)

## 2 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 30 June 2020 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 2020.

## 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
<b>Assets</b>			
Cash and balances with banks	28,166,234	28,164,801	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(1,322)	(1)
Placements with banks	9,952,929	9,952,929	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(480)	(2)
Loans and advances to customers	99,398,569	99,398,569	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(414,172)	(3)
Financial assets at fair value through profit or loss	2,161,013	2,134,694	
Derivative financial instruments	697,157	697,157	
Investment securities at fair value through other comprehensive income	75,708,380	75,693,354	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>		1,042,855	(4)
Investment securities at amortised cost	380,895	380,895	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(6)	(5)
Properties for sale	486,679	486,679	
Investments in associates and joint venture	398,731	188,000	
Investments in and amounts due from subsidiaries	–	370,738	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(9,935)	(6)
Properties and equipment	2,682,057	2,523,030	
Investment properties	1,014,973	1,044,761	
Deferred income tax assets	19,317	19,392	(7)
Other assets	2,637,525	2,565,906	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		(1,278)	(8)
<b>Total assets</b>	<b>223,704,459</b>	<b>223,620,905</b>	

## REGULATORY DISCLOSURES (UNAUDITED)

### 2 Capital structure and adequacy (Continued)

#### Reconciliation of regulatory capital to balance sheet (Continued)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to Composition of Regulatory Capital
<b>Liabilities</b>			
Deposits and balances from banks	9,564,760	9,564,760	
Deposits from customers	173,961,945	173,961,945	
Derivative financial instruments	635,506	635,506	
Amounts due to subsidiaries	–	518,459	
Subordinated debts	4,239,052	4,239,052	(9)
Other liabilities	4,445,734	4,274,537	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>		18,216	(10)
Current income tax liabilities	277,812	276,425	
Deferred income tax liabilities	62,719	61,040	
<b>Total liabilities</b>	<b>193,187,528</b>	<b>193,531,724</b>	
<b>Equity</b>			
Share capital	2,000,000	2,000,000	(11)
Retained earnings	17,468,636	17,129,060	(12)
Reserves	10,960,109	10,960,121	
<i>of which: accumulated other comprehensive income/(loss), other than regulatory reserve</i>		10,026,100	(13)
<i>regulatory reserve</i>		934,021	(14)
Non-controlling interests in equity	88,186	–	
<b>Total equity</b>	<b>30,516,931</b>	<b>30,089,181</b>	
<b>Total equity and liabilities</b>	<b>223,704,459</b>	<b>223,620,905</b>	

## REGULATORY DISCLOSURES (UNAUDITED)

## 2 Capital structure and adequacy (Continued)

## Composition of regulatory capital

The Bank has already applied full capital deductions under the BCR. The Composition of Regulatory Capital as at 30 June 2020 is shown below:

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(11)
2	Retained earnings	17,129,060	(12)
3	Disclosed reserves	10,960,121	(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	<b>CET1 capital before regulatory deductions</b>	<b>30,089,181</b>	
<b>CET1 capital: regulatory deductions</b>			
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	–	
10	Deferred tax assets (net of associated deferred tax liabilities)	19,392	(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)	1,042,855	(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	934,021	
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	934,021	(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)	–	

## REGULATORY DISCLOSURES (UNAUDITED)

### 2 Capital structure and adequacy (Continued)

#### Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
<b>CET1 capital: regulatory deductions (Continued)</b>			
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	<b>Total regulatory deductions to CET1 capital</b>	<b>1,996,268</b>	
29	<b>CET1 capital</b>	<b>28,092,913</b>	
<b>AT1 capital: instruments</b>			
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	<b>AT1 capital before regulatory deductions</b>	–	
<b>AT1 capital: regulatory deductions</b>			
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	<b>Total regulatory deductions to AT1 capital</b>	–	
44	<b>AT1 capital</b>	–	
45	<b>Tier 1 capital (Tier 1 = CET1 + AT1)</b>	<b>28,092,913</b>	
<b>Tier 2 capital: instruments and provisions</b>			
46	Qualifying Tier 2 capital instruments plus any related share premium	4,239,052	(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	1,379,430	(10) + (14) – (1) – (2) – (3) – (5) – (6) – (8)
51	<b>Tier 2 capital before regulatory deductions</b>	<b>5,618,482</b>	

## REGULATORY DISCLOSURES (UNAUDITED)

## 2 Capital structure and adequacy (Continued)

## Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
<b>Tier 2 capital: regulatory deductions</b>			
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	<b>Total regulatory adjustments to Tier 2 capital</b>	–	
58	<b>Tier 2 capital</b>	<b>5,618,482</b>	
59	<b>Total regulatory capital (TC = Tier 1 + Tier 2)</b>	<b>33,711,395</b>	
60	<b>Total risk weighted assets</b>	<b>173,220,973</b>	
<b>Capital ratios (as a percentage of risk weighted assets)</b>			
61	<b>CET1 capital ratio</b>	<b>16.2%</b>	
62	<b>Tier 1 capital ratio</b>	<b>16.2%</b>	
63	<b>Total capital ratio</b>	<b>19.5%</b>	
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	<b>3.1%</b>	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical capital buffer requirement	0.6%	
67	of which: higher loss absorbency requirement	0.0%	
68	<b>CET1 (as a percentage of RWA) available after meeting minimum capital requirements</b>	<b>10.2%</b>	
<b>National minima (if different from Basel 3 minimum)</b>			
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	



## REGULATORY DISCLOSURES (UNAUDITED)

### 2 Capital structure and adequacy (Continued)

#### Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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	2,906,746	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	569,533	
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	
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
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)	1,379,430	
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	1,927,327	
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	–	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	–	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

## REGULATORY DISCLOSURES (UNAUDITED)

## 2 Capital structure and adequacy (Continued)

## Composition of regulatory capital (Continued)

Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
	<b>Deferred tax assets (“DTA”) (net of associated deferred tax liabilities)</b>	<b>19,392</b>	<b>–</b>
10	<p><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.</p>		
<p>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.</p>			

## Footnote:

CET1 Common Equity Tier 1

AT1 Additional Tier 1

## REGULATORY DISCLOSURES (UNAUDITED)

### 2 Capital structure and adequacy (Continued)

#### Main features of regulatory capital instruments

The main features of regulatory capital instruments as at 30 June 2020 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/20200630.jsp>

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
1	Issuer	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	ISIN: XS1720518478	ISIN: XS1892105823
3	Governing law(s) of the instrument	Laws of Hong Kong	English law, except that the subordination provisions shall be governed by the laws of Hong Kong.	English Law, except that the subordination provisions shall be governed by the laws of Hong Kong.
	Regulatory treatment			
4	Transitional Basel III rules#	N/A	N/A	N/A
5	Post-transitional Basel III rules+	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo*/group/solo and group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Other Tier 2 instruments	Other Tier 2 instruments
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	HK\$2,000 million	HK\$1,926 million	HK\$2,313 million
9	Par value of instrument	N/A	US\$250 million	US\$300 million
10	Accounting classification	Shareholders' equity	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	1951, 1968, 1969, 1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000	29 November 2017	17 January 2019
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	29 November 2027	17 January 2029
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	One-off call date: 29 November 2022.  Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA.	One-off call date: 17 January 2024.  Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA.
16	Subsequent call dates, if applicable	N/A	N/A	N/A

## REGULATORY DISCLOSURES (UNAUDITED)

## 2 Capital structure and adequacy (Continued)

## Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
	Coupons/dividends			
17	Fixed or floating dividend/ coupon	Floating	Fixed	Fixed
18	Coupon rate and any related index	N/A	3.75% p.a.  Fixed until 29 November 2022 and thereafter reset to a new fixed rate equal to the sum of the then prevailing U.S. Treasury Rate and the Spread at Pricing.	5.00% p.a.  Fixed until 17 January 2024 and thereafter reset to a new fixed rate equal to the sum of the then prevailing U.S. Treasury Rate and the Spread at Pricing.
19	Existence of a dividend stopper	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	No	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	The earlier of the HKMA notifying the issuer in writing:  (i) that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable or  (ii) that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.	The earlier of the HKMA notifying the issuer in writing:  (i) that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable or  (ii) that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.
32	If write-down, full or partial	N/A	May be in part or in full	May be in part or in full
33	If write-down, permanent or temporary	N/A	Permanent	Permanent

## REGULATORY DISCLOSURES (UNAUDITED)

### 2 Capital structure and adequacy (Continued)

#### Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned)	N/A	<p>The rights of the holders will, in the event of the winding up of the Bank, rank</p> <p>(i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), and (b) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Notes or rank senior to the Notes by operation of law or contract;</p> <p>(ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and</p> <p>(iii) senior in right of payment to, and of all claims of, (a) the holders of Junior Obligations, and (b) holders of Tier 1 Capital Instruments of the Issuer.</p>	<p>The rights of the holders will, in the event of the winding up of the Bank, rank</p> <p>(i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), and (b) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Notes or rank senior to the Notes by operation of law or contract;</p> <p>(ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and</p> <p>(iii) senior in right of payment to, and of all claims of, (a) the holders of Junior Obligations, and (b) holders of Tier 1 Capital Instruments of the Issuer.</p>
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

Footnote:

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

## REGULATORY DISCLOSURES (UNAUDITED)

## 3 Overview of RWA

The table below shows the breakdowns of RWA for various risks as at 30 June 2020 and 31 March 2020 and the minimum capital requirements as at 30 June 2020 are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		30 June 2020	31 March 2020	30 June 2020
1	Credit risk for non-securitization exposures	150,170,626	150,443,967	12,013,650
2	Of which STC approach	150,170,626	150,443,967	12,013,650
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	2,591,701	2,557,218	207,336
7	Of which SA-CCR	Not Applicable	Not Applicable	Not Applicable
7a	Of which CEM	2,591,701	2,557,218	207,336
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	636,300	674,200	50,904
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	9,032,013	8,104,050	722,561
21	Of which STM approach	9,032,013	8,104,050	722,561
22	Of which IMM approach	–	–	–
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	Not Applicable	Not Applicable	Not Applicable
24	Operational risk	9,366,500	9,427,900	749,320
24a	Sovereign concentration risk	–	–	–
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,423,833	1,413,278	113,907
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	<b>Total</b>	<b>173,220,973</b>	<b>172,620,613</b>	<b>13,857,678</b>

## REGULATORY DISCLOSURES (UNAUDITED)

### 4 Countercyclical Capital Buffer (“CCyB”) Ratio

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

Key drivers for the changes in exposure amounts include asset quality, credit growth and credit portfolio. The applicable JCCyB ratio for Hong Kong is determined by the 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 2020.

	Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
		%	HK\$'000	%	HK\$'000
1	Hong Kong SAR	1.0%	80,471,269		
	<b>Sum</b>		<b>80,471,269</b>		
	<b>Total</b>		<b>124,728,683</b>	<b>0.6%</b>	<b>1,117,275</b>

## REGULATORY DISCLOSURES (UNAUDITED)

## 5 Leverage ratio

The leverage ratio ("LR") represents the consolidated ratio computed in the same regulatory consolidation basis as the capital adequacy ratio. The table below presents the summary comparison of accounting assets against leverage ratio exposure measure as at 30 June 2020.

	Item	Value under the LR framework
1	Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	224,188,446
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(83,554)
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	3,808,547
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)	11,261,692
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(483,987)
7	Other adjustments	(1,996,268)
8	<b>Leverage ratio exposure measure</b>	<b>236,694,876</b>

The leverage ratios as at 30 June 2020 and 31 March 2020 are shown below:

		30 June 2020	31 March 2020
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	223,407,735	221,042,239
2	Less: Asset amounts deducted in determining Tier 1 capital	(1,996,268)	(1,953,476)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>221,411,467</b>	<b>219,088,763</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	697,157	730,702
5	Add-on amounts for PFE associated with all derivative contracts	3,808,547	3,745,090
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	<b>Total exposures arising from derivative contracts</b>	<b>4,505,704</b>	<b>4,475,792</b>



## REGULATORY DISCLOSURES (UNAUDITED)

### 5 Leverage ratio (Continued)

		30 June 2020	31 March 2020
<b>Exposures arising from SFTs</b>			
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	<b>Total exposures arising from SFTs</b>	<b>–</b>	<b>–</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	49,995,019	55,021,919
18	Less: Adjustments for conversion to credit equivalent amounts	(38,733,327)	(42,831,182)
19	<b>Off-balance sheet items</b>	<b>11,261,692</b>	<b>12,190,737</b>
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	<b>28,092,913</b>	<b>28,155,510</b>
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	<b>237,178,863</b>	<b>235,755,292</b>
20b	<b>Adjustments for specific and collective provisions</b>	<b>(483,987)</b>	<b>(470,190)</b>
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>236,694,876</b>	<b>235,285,102</b>
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	<b>11.9%</b>	<b>12.0%</b>

Footnote:

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

## REGULATORY DISCLOSURES (UNAUDITED)

## 6 Credit risk

## (a) Credit quality of exposures as at 30 June 2020

	Gross carrying amounts of	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values
					Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	72,479	99,778,840	452,750	38,578	414,172	–	99,398,569
2	Debt securities	–	71,997,707	6	–	6	–	71,997,701
3	Off-balance sheet exposures	–	14,774,168	7,380	–	7,380	–	14,766,788
4	<b>Total</b>	<b>72,479</b>	<b>186,550,715</b>	<b>460,136</b>	<b>38,578</b>	<b>421,558</b>	<b>–</b>	<b>186,163,058</b>

## (b) Changes in defaulted loans and debt securities

	Amount	
1	Defaulted loans and debt securities as at end December 2019	479,466
2	Loans and debt securities that have defaulted since the last reporting period	13,929
3	Returned to non-defaulted status	(6,401)
4	Amounts written off	(5,589)
5	Other changes	(408,926)
6	<b>Defaulted loans and debt securities as at end June 2020</b>	<b>72,479</b>

## (c) Overview of recognised credit risk mitigation as at 30 June 2020

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts	
1	Loans	97,477,732	1,920,837	1,252,719	668,118	–
2	Debt securities	71,997,701	–	–	–	–
3	<b>Total</b>	<b>169,475,433</b>	<b>1,920,837</b>	<b>1,252,719</b>	<b>668,118</b>	<b>–</b>
4	Of which defaulted	2,667	58,975	58,975	–	–

## REGULATORY DISCLOSURES (UNAUDITED)

### 6 Credit risk (Continued)

#### (d) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach as at 30 June 2020

Exposure classes	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Sovereign exposures	13,179,609	–	13,227,496	–	33,048	0%
2 PSE exposures	2,514,887	–	2,467,000	–	493,400	20%
2a Of which: domestic PSEs	2,514,887	–	2,467,000	–	493,400	20%
2b Of which: foreign PSEs	–	–	–	–	–	–
3 Multilateral development bank exposures	–	–	–	–	–	–
4 Bank exposures	69,390,772	453,777	69,967,185	92,074	25,143,006	36%
5 Securities firm exposures	451,454	197,393	451,454	–	225,727	50%
6 Corporate exposures	102,990,021	36,312,236	101,706,900	6,286,958	100,651,706	93%
7 CIS exposures	–	–	–	–	–	–
8 Cash items	778,749	–	1,972,493	–	131,159	7%
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	4,104,156	3,396,896	3,986,887	164,403	3,113,467	75%
11 Residential mortgage loans	9,851,473	2,151,319	9,849,299	1,073,623	5,408,606	50%
12 Other exposures which are not past due exposures	15,152,760	7,483,398	14,785,167	122,549	14,907,716	100%
13 Past due exposures	61,642	–	61,642	–	62,791	102%
14 Significant exposures to commercial entities	–	–	–	–	–	–
15 <b>Total</b>	<b>218,475,523</b>	<b>49,995,019</b>	<b>218,475,523</b>	<b>7,739,607</b>	<b>150,170,626</b>	<b>66%</b>

## REGULATORY DISCLOSURES (UNAUDITED)

## 6 Credit risk (Continued)

## (e) Credit risk exposures by asset classes and by risk weights – for STC approach as at 30 June 2020

Exposure class		Risk Weight										Total credit risk exposures amount (post CCF and post CRM)
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
1	Sovereign exposures	13,062,254	-	165,242	-	-	-	-	-	-	-	13,227,496
2	PSE exposures	-	-	2,467,000	-	-	-	-	-	-	-	2,467,000
2a	Of which: domestic PSEs	-	-	2,467,000	-	-	-	-	-	-	-	2,467,000
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	34,054,686	-	35,345,010	-	659,563	-	-	-	70,059,259
5	Securities firm exposures	-	-	-	-	451,454	-	-	-	-	-	451,454
6	Corporate exposures	-	-	229,797	-	14,316,628	-	93,447,433	-	-	-	107,993,858
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	1,482,363	-	448,714	-	-	-	41,416	-	-	-	1,972,493
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	-	-	-	-	-	4,151,290	-	-	-	-	4,151,290
11	Residential mortgage loans	-	-	-	8,386,536	-	252,267	2,284,119	-	-	-	10,922,922
12	Other exposures which are not past due exposures	-	-	-	-	-	-	14,907,716	-	-	-	14,907,716
13	Past due exposures	-	-	231	-	-	-	58,744	2,667	-	-	61,642
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	<b>Total</b>	<b>14,544,617</b>	<b>-</b>	<b>37,365,670</b>	<b>8,386,536</b>	<b>50,113,092</b>	<b>4,403,557</b>	<b>111,398,991</b>	<b>2,667</b>	<b>-</b>	<b>-</b>	<b>226,215,130</b>

## REGULATORY DISCLOSURES (UNAUDITED)

### 7 Counterparty credit risk

#### (a) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches as at 30 June 2020

		Replacement cost (RC)	PFE	Effective EPE	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	–	–		1.4	–	–
1a	CEM	696,970	3,808,547		–	4,505,517	2,591,701
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	<b>Total</b>						<b>2,591,701</b>

#### (b) CVA capital charge as at 30 June 2020

		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	4,505,517	636,300
4	<b>Total</b>	<b>4,505,517</b>	<b>636,300</b>

## REGULATORY DISCLOSURES (UNAUDITED)

## 7 Counterparty credit risk (Continued)

## (c) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach as at 30 June 2020

Exposure class		Risk Weight											Total default risk exposure after CRM
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	1,292,537	-	1,447,167	-	1,533	-	-	-	-	2,741,237
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	312,405	-	580,747	-	-	-	-	893,152
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	871,128	-	-	-	-	871,128
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	-
12	<b>Total</b>	-	-	<b>1,292,537</b>	-	<b>1,759,572</b>	-	<b>1,453,408</b>	-	-	-	-	<b>4,505,517</b>

## REGULATORY DISCLOSURES (UNAUDITED)

### 7 Counterparty credit risk (Continued)

#### (d) Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) as at 30 June 2020

		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	–	–	–	224,299	–	–
2	<b>Total</b>	–	–	–	<b>224,299</b>	–	–

#### (e) Credit-related derivatives contracts

The Group did not have any credit-related derivatives contracts as at 30 June 2020.

#### (f) Exposures to CCPs

The Group did not have any exposures to CCPs as at 30 June 2020.

### 8 Market risk

#### Market risk under STM approach as at 30 June 2020

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	2,921,175
2	Equity exposures (general and specific risk)	70,838
3	Foreign exchange (including gold) exposures	6,040,000
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	–
7	Other approach	–
8	Securitization exposures	–
9	<b>Total</b>	<b>9,032,013</b>

## REGULATORY DISCLOSURES (UNAUDITED)

## 9 Non-bank Mainland exposures

The Bank	30 June 2020			31 December 2019		
	On-balance sheet exposures	Off-balance sheet exposures	Total	On-balance sheet exposures	Off-balance sheet exposures	Total
Types of counterparties						
1. Central government, central government-owned entities and their subsidiaries and joint ventures	8,666,171	2,930	8,669,101	8,709,448	–	8,709,448
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	–	–	–	–	–	–
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	6,529,218	1,097,192	7,626,410	6,654,865	1,344,663	7,999,528
4. Other entities of central government not reported in item 1 above	2,439,379	–	2,439,379	2,412,217	–	2,412,217
5. Other entities of local governments not reported in item 2 above	1,700,537	172,813	1,873,350	2,430,959	83,125	2,514,084
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,896,501	568,563	8,465,064	7,201,890	633,321	7,835,211
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	826,791	213	827,004	922,241	501	922,742
<b>Total</b>	<b>28,058,597</b>	<b>1,841,711</b>	<b>29,900,308</b>	28,331,620	2,061,610	30,393,230
Total assets after provision	214,351,581			207,731,490		
On-balance sheet exposures as percentage of total assets	13.09%			13.64%		



## REGULATORY DISCLOSURES (UNAUDITED)

### 10 Currency concentrations

As at 30 June 2020

Equivalent in Hong Kong dollars	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long position	Net structural position
US Dollars	95,954,000	(83,216,000)	74,714,000	(58,326,000)	–	29,126,000	881,000
Pound Sterling	8,009,000	(6,096,000)	2,754,000	(4,659,000)	–	8,000	23,000
Euro Dollars	1,261,000	(1,374,000)	1,807,000	(1,693,000)	–	1,000	–
Renminbi	19,903,000	(18,459,000)	16,878,000	(16,918,000)	–	1,404,000	5,533,000
Canadian Dollars	1,672,000	(1,681,000)	35,000	(26,000)	–	–	–
Australian Dollars	2,949,000	(3,078,000)	1,996,000	(1,862,000)	–	5,000	–
Other currencies and gold	2,166,000	(1,043,000)	7,152,000	(8,228,000)	–	47,000	–
	<b>131,914,000</b>	<b>(114,947,000)</b>	<b>105,336,000</b>	<b>(91,712,000)</b>	<b>–</b>	<b>30,591,000</b>	<b>6,437,000</b>

As at 31 December 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	89,701,000	(79,848,000)	34,007,000	(27,273,000)	–	16,587,000	584,000
Pound Sterling	7,448,000	(5,931,000)	2,208,000	(3,736,000)	–	(11,000)	50,000
Euro Dollars	1,226,000	(1,209,000)	89,000	(106,000)	–	–	–
Renminbi	20,021,000	(19,031,000)	4,623,000	(4,690,000)	–	923,000	6,104,000
Canadian Dollars	1,690,000	(1,692,000)	14,000	(12,000)	–	–	–
Australian Dollars	2,838,000	(2,894,000)	1,144,000	(1,079,000)	–	9,000	–
Other currencies and gold	2,345,000	(1,054,000)	1,984,000	(3,251,000)	–	24,000	–
	<b>125,269,000</b>	<b>(111,659,000)</b>	<b>44,069,000</b>	<b>(40,147,000)</b>	<b>–</b>	<b>17,532,000</b>	<b>6,738,000</b>

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

- investments in properties and equipment, net of depreciation;
- capital, statutory reserves and unremitted profits of overseas branches; and
- investments in overseas subsidiaries and related company.

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

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

## REVIEW OF OPERATIONS

### Financial Review

Since early 2020, the COVID-19 pandemic had an enormous adverse impact on the global economy. In Hong Kong, international trade activities abated significantly despite government measures quickly introduced across different sectors in an effort to avoid widespread economic catastrophes. Total exports of goods fell dramatically and exports of services also plummeted. Domestic demand weakened markedly too, reflecting serious disruptions caused by the threat of COVID-19 and a noticeable subdued business sentiment. In recent months, the economic recession deepened, with the real Gross Domestic Product in the first quarter of 2020 contracted by 8.9% from a year earlier, the steepest fall for a single quarter on record, and the unemployment rate surged to 6.2% in the three months to June 2020, the highest in more than 15 years.

For the first six months ended 30 June 2020, the consolidated profit after tax of Shanghai Commercial Bank Limited (the "Bank") was HK\$1,279 million, a decrease of HK\$282 million or 18.1%, partly due to the timing in recognizing the dividend from a strategic investment, which will be recorded in the second half of the year starting from 2020. Net interest income and net fee and commission income were lower year-on-year, while impairment charge had increased due to higher expected credit loss percentage for loans and advances to customers as we continued to optimize our risk governance policy in response to the emerging and heightening risks arising from the domestic and global economic environment. Nevertheless, the credit quality of our loans portfolio remained stable and sound, with impaired loan ratio notably lowered to 0.15% from that of 0.57% at the end of 2019.

The overall loan-to-deposit ratio dropped from 58% at the end of 2019 to 57% as loans and advances grew by 0.7% to HK\$100 billion while total customer deposits increased by 0.9% to HK\$174 billion. The average net interest margin narrowed by 30 basis points to 1.73% from 2.03% for the same period last year, mainly due to lower average yields from interbank placements, loans and investments.

The Bank's total expenses at HK\$799 million were HK\$33 million or 4.0% lower than that for the same period last year, while the cost-to-income ratio had increased by two percentage points to 31.9% compared to last year.

Total comprehensive income attributable to equity holders for the first half ended 30 June 2020 at HK\$831 million was HK\$1,201 million or 59.1% lower than that for the same period last year, mainly due to the lower mark-to-market valuation of our equity investments.

At the end of June 2020, total assets of the Bank increased by 0.5% to HK\$224 billion while shareholders' funds decreased by 0.4% to HK\$30 billion when compared with the corresponding figures at the end of 2019. Returns on average total assets and average equity for the first half of 2020 were 1.1% and 8.4% respectively. The Bank's financial position remains solid with a strong capital base as indicated by the capital adequacy ratio of 19.5% at the end of June 2020 and a comfortable liquidity maintenance ratio averaged 57.0% for the period.

### Operation Strategies

Standing together with local small and medium-sized enterprises ("SMEs") against the challenges brought by the on-going pandemic, the Bank supported the 'SME Financing Guarantee Scheme' launched by HKMC Insurance Limited ("HKMCI") to alleviate our corporate customers the short-term cash flow situation and the financial burdens they experience. In addition, the Bank continues to offer different products and services to facilitate retirement planning by citizens. To address the ever-increasing demand for safer, faster and easier banking services, we have rolled out software token application with biometric authentication to satisfy our customers' online banking needs.

We also continue to be dedicated to helping our customers expand their business interests and investments outside of Hong Kong. We maintain our tri-bank alliance with Bank of Shanghai in Mainland China and our parent bank, The Shanghai Commercial & Savings Bank, Ltd. in Taiwan, and we continue to develop our international and cross-border presence, in London, San Francisco, Los Angeles and New York, Shenzhen and Shanghai.

## REVIEW OF OPERATIONS

### Sustainability

We are proud of our commitment to local communities and Corporate Social Responsibility. Recently, we have made significant efforts on the sustainability front. The Bank will commit dedicated time and resources to improving our Environmental, Social and Governance practices in the long term, also to gradually gear up and integrate green and sustainable banking initiatives into our business strategy, including more green banking solutions and sustainability-integrated investment products, so as to meet the possible challenges arising from climate change and to help build a brighter future for the community at large.

### Bank Culture

The Bank continues to foster a sound corporate culture underpinned by the three pillars promoted by the regulators: governance, incentive systems and assessment and feedback mechanisms. Further, at the foundation of our culture is our seven core corporate values: "Accountability", "Integrity", "Leadership", "Proactive", "Professionalism", "Respect" and "Teamwork". Now that we are in the third year of our efforts to bolster our corporate culture, we conducted an employee survey in April to gauge the level of staff engagement on the cultural change-initiatives and feedbacks were collected to help structure future events and programmes. Amid social distancing requirements due to the COVID-19 pandemic, we have resorted to electronic means to grow our workplace culture as well as to refine our training programme, recruitment arrangement, performance management system, and etc.

### Looking Ahead

The COVID-19 pandemic has brought an unprecedented impact on various business sectors. The Bank is devoted in doing the best to keep our customers, staff and community in a position to weather and recover from the economic challenges. The Bank will adopt a more prudent approach for the remainder of 2020 in terms of business growth. We will strive to maintain the credit quality of our loans portfolio with close monitoring, while supporting affected enterprises and SMEs with viable business. We will also continue to stay alert, preparing ourselves for emerging competition from new entrants to our industry, such as 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, 12 August 2020

## **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 2020 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, 12 August 2020