



上海商業銀行
SHANGHAI COMMERCIAL BANK

2021

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT



Thank you

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

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

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Welcome to Shanghai Commercial Bank Limited's website



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2021

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2021

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2021

(All amounts in HK dollar thousands unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

1 General information

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

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

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

This Group Interim Financial Disclosure Statement is presented in thousands of units of Hong Kong Dollars (HK\$’000), unless otherwise stated and was approved for issue by the Board of Directors on 25 August 2021.

2 Basis of preparation

This Group Interim Financial Disclosure Statement for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”. The Group Interim Financial Disclosure Statement should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the year ended 31 December 2020 that is included in the 2021 Group Interim Financial Disclosure Statement as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that year but is derived from those financial statements.

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

3 Accounting policies

The accounting policies applied in the preparation of the 2021 Group Interim Financial Disclosure Statement are consistent with those used and described in the Group's audited annual financial statements for the year ended 31 December 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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

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

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

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

HKFRS 17 "Insurance contracts"

HKFRS 17 "Insurance contracts" is effective for the accounting period beginning on or after 1 January 2023. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard and to replace the HKFRS 4 "Insurance contracts". The objective of HKFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. HKFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. The general model under HKFRS 17 requires an entity to measure an insurance contract at initial recognition at the total of the fulfilment cash flows and the contractual service margin. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. The Group is in the process of assessing the financial and disclosure impact on the adoption of the standard.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

4 Estimates

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

In preparing this Group Interim Financial Disclosure Statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's audited annual financial statements for the year ended 31 December 2020.

5 Basis of consolidation

(a) Subsidiaries

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

5 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

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

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

¹ Ordinary share capital is held directly by the Bank.

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

5 Basis of consolidation (Continued)

(b) Transactions with non-controlling interests

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

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

(c) Associates and joint ventures

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

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

6 Net interest income

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

7 Net fee and commission income

| | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|--|---|---|
| Fee and commission income | | |
| Bills | 35,472 | 33,431 |
| Nominees, custodian and securities brokerage | 164,835 | 123,185 |
| Investment products | 88,581 | 72,085 |
| Remittance | 28,842 | 29,717 |
| Credit cards | 21,016 | 18,366 |
| Retail banking | 25,571 | 25,459 |
| Insurance | 23,207 | 23,267 |
| Loans and advances and facility fees | 84,235 | 101,334 |
| Trust and other commissions | 1,502 | 1,540 |
| Total fee and commission income | 473,261 | 428,384 |
| Less: fee and commission expense | (29,217) | (27,080) |
| Net fee and commission income | 444,044 | 401,304 |
| Of which: | | |
| Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at fair value through profit or loss | | |
| – fee and commission income | 140,723 | 153,131 |
| – fee and commission expense | 6,346 | 4,652 |
| Net fee and commission income on trust and other fiduciary activities | | |
| – fee and commission income | 11,154 | 10,043 |

8 Net trading income

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

9 Other operating income

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

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

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

11 Operating expenses

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

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

12 Credit impairment losses

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

13 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profits for the six months ended 30 June 2021. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2021 at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the statement of profit or loss represents:

| | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|---|---|---|
| Current income tax: | | |
| – Hong Kong profits tax | 201,383 | 184,104 |
| – Overseas taxation | 153,677 | 145,498 |
| – Over provisions in respect of prior years | (22,345) | (442) |
| Total current income tax | <u>332,715</u> | <u>329,160</u> |
| Deferred income tax: | | |
| – Hong Kong deferred tax | (3,666) | (5,259) |
| – Overseas deferred tax | 7,027 | 8,320 |
| Total deferred income tax | <u>3,361</u> | <u>3,061</u> |
| Income tax expense | <u>336,076</u> | <u>332,221</u> |

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

14 Cash and balances with banks

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

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

15 Placements with banks

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

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

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

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

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

| As at 30 June 2021 (unaudited) | Balance | Stage 3 balance | Balance overdue for over 3 months | Total Stage 3 credit impairment allowances | Total Stage 1 and Stage 2 credit impairment allowances |
|--|--------------------|-----------------|-----------------------------------|--|--|
| Hong Kong | 62,362,774 | 80,392 | 31,383 | 16,170 | 393,302 |
| Mainland China | 6,464,515 | 72,333 | 72,333 | 36,173 | 16,747 |
| United States | 26,728,723 | 29,218 | 7,486 | – | 39,260 |
| Others | 4,004,723 | 11 | 11 | 9 | 21,240 |
| | <u>99,560,735</u> | <u>181,954</u> | <u>111,213</u> | <u>52,352</u> | <u>470,549</u> |
| % of total loans and advances to customers | | <u>0.18</u> | | | |
| Fair value of collateral | | <u>368,532</u> | | | |
| As at 31 December 2020 (audited) | Balance | Stage 3 balance | Balance overdue for over 3 months | Total Stage 3 credit impairment allowances | Total Stage 1 and Stage 2 credit impairment allowances |
| Hong Kong | 62,915,349 | 71,610 | 24,287 | 15,749 | 375,327 |
| Mainland China | 7,155,458 | 71,751 | 47,907 | 29,914 | 14,799 |
| United States | 26,557,550 | 22,066 | – | – | 39,718 |
| Others | 4,679,550 | 2,909 | 2,804 | – | 14,767 |
| | <u>101,307,907</u> | <u>168,336</u> | <u>74,998</u> | <u>45,663</u> | <u>444,611</u> |
| % of total loans and advances to customers | | <u>0.17</u> | | | |
| Fair value of collateral | | <u>392,915</u> | | | |

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

16 Loans and advances to customers (Continued)

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

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

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Derivative financial instruments

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

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

Credit risk weighted amount

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

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

The credit risk weighted amounts as at 30 June 2021 are calculated in accordance with the standardised (counterparty credit risk) approach (31 December 2020: current exposure method) as stipulated in the Banking (Capital) Rules.

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

17 Derivative financial instruments (Continued)

The Group uses the following derivative strategies:

- Trading purposes (customer needs)

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

- Trading purposes (own account)

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

18 Properties for sale

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

19 Properties and equipment

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

20 Investment properties

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

As at 30 June 2021, the Group's investment properties were valued at HK\$2,547,500,000 (31 December 2020: HK\$2,967,000,000) by an independent firm of Jones Lang LaSalle Limited (31 December 2020: Cushman & Wakefield Limited), who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The valuations were performed on an open market value basis.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

20 Investment properties (Continued)

Operating lease commitments as a lessor

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

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

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

21 Deposits from customers

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

22 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with banks

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

(ii) Loans and advances to customers

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

(iii) Investment securities at amortised cost

The fair value for investment securities at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The fair value of investment securities at amortised cost is classified under Level 1 (30 June 2021: HK\$1,385,426,000; 31 December 2020: HK\$344,486,000) in the fair value hierarchy. Please refer to Note 22(b) for the definition of fair value hierarchy.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

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

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

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

(v) Subordinated debts

The fair value of subordinated debts of HK\$4,479,013,000 (31 December 2020: HK\$4,496,447,000) is classified under Level 2 in the fair value hierarchy.

(b) Fair value hierarchy

Valuation governance

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

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

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

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

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

22 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

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

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

Level 2 fair values of foreign exchange rate contracts and interest rate contracts are determined using the appropriate foreign exchange rates, interest rate yield curves and where applicable, the implied option volatility at the reporting date, with the expected cash-flow discounted back to present value.

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

If the significant unobservable inputs would be shifted by +/- 5%, the impact on other comprehensive income would be increased by HK\$3,659,000 (31 December 2020: HK\$995,000) or decreased by HK\$3,279,000 (31 December 2020: HK\$794,000) and profit or loss would be increased/decreased by HK\$436,000 (31 December 2020: HK\$436,000) respectively.

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

23 Subordinated debts

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

24 Deferred income tax

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

25 Reserves attributable to equity holders

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

26 Contingent liabilities and commitments

(a) Credit commitments

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

| Contract amounts | 30 June 2021 (unaudited) | 31 December 2020 (audited) |
|---|-----------------------------|-------------------------------|
| Direct credit substitutes | 2,414,867 | 2,319,494 |
| Trade-related contingencies | 2,680,728 | 2,238,682 |
| Other commitments with an original maturity of: | | |
| – under 1 year | 600,223 | 1,857,689 |
| – 1 year and over | 7,750,043 | 8,421,031 |
| – unconditionally cancellable | <u>33,063,886</u> | <u>36,379,054</u> |
| | <u>46,509,747</u> | <u>51,215,950</u> |
| Credit risk weighted amounts | <u>6,028,755</u> | <u>6,222,945</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 2021 (unaudited) | 31 December 2020 (audited) |
|---------------------------------|-----------------------------|-------------------------------|
| Contracted but not provided for | <u>439,134</u> | <u>488,368</u> |

(c) Other contingent liabilities

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

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(All amounts in HK dollar thousands unless otherwise stated)

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT
27 Maturity analysis

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

| As at 30 June 2021 (unaudited) | Repayable on demand | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Indefinite | Total |
|--|---------------------|--------------------|---------------------|-------------------|-------------------|-------------------|------------------|--------------------|
| Assets | | | | | | | | |
| Cash and balances with banks | 13,361,924 | 19,722,635 | - | - | - | - | - | 33,084,559 |
| Placements with banks | - | - | 5,086,817 | 4,263,472 | - | - | - | 9,350,289 |
| Loans and advances to customers | 4,845,628 | 9,127,410 | 9,838,077 | 28,442,351 | 31,717,864 | 15,960,162 | 151,996 | 100,083,488 |
| Financial assets at fair value through profit or loss | - | - | 38,835 | 479 | 105,408 | 1,872,109 | 255,790 | 2,272,621 |
| Derivative financial instruments | - | 103,892 | 82,481 | 83,838 | 59,590 | - | - | 329,801 |
| Investment securities at fair value through other comprehensive income | - | 2,499,947 | 6,380,063 | 21,099,339 | 38,615,590 | 5,375,399 | 4,410,310 | 78,380,648 |
| Investment securities at amortised cost | - | - | 124,518 | 204,448 | 1,058,678 | - | - | 1,387,644 |
| Properties for sale | - | - | - | - | 658,041 | - | - | 658,041 |
| Investments in associates and joint venture | - | - | - | - | - | - | 497,334 | 497,334 |
| Properties and equipment | - | 8,884 | 17,769 | 67,205 | 114,868 | 65,739 | 2,316,145 | 2,590,610 |
| Investment properties | - | - | - | - | - | - | 1,007,119 | 1,007,119 |
| Deferred income tax assets | - | - | - | - | - | - | 20,881 | 20,881 |
| Other assets | 260,016 | 880,950 | 73,465 | 270,300 | 344,937 | 55,646 | 4,172 | 1,889,486 |
| Total assets | 18,467,568 | 32,343,718 | 21,642,025 | 54,431,432 | 72,674,976 | 23,329,055 | 8,663,747 | 231,552,521 |
| Liabilities | | | | | | | | |
| Deposits and balances from banks | 853,331 | 3,609,455 | 4,911,765 | 408,617 | - | - | - | 9,783,168 |
| Deposits from customers | 76,005,492 | 34,421,296 | 44,936,827 | 24,107,968 | 284,837 | - | - | 179,756,420 |
| Derivative financial instruments | - | 71,952 | 58,870 | 48,714 | 59,590 | - | - | 239,126 |
| Subordinated debts | - | - | - | - | - | 4,249,793 | - | 4,249,793 |
| Other liabilities | 678,530 | 2,018,651 | 212,614 | 477,311 | 132,134 | 65,636 | - | 3,584,876 |
| Current income tax liabilities | - | - | - | 186,541 | - | - | - | 186,541 |
| Deferred income tax liabilities | - | - | - | - | - | - | 68,342 | 68,342 |
| Total liabilities | 77,537,353 | 40,121,354 | 50,120,076 | 25,229,151 | 476,561 | 4,315,429 | 68,342 | 197,868,266 |
| Net liquidity gap | (59,069,785) | (7,777,636) | (28,478,051) | 29,202,281 | 72,198,415 | 19,013,626 | 8,595,405 | 33,684,255 |
| Of which lease liabilities included in: | | | | | | | | |
| Other liabilities | - | 10,856 | 18,514 | 71,033 | 126,103 | 65,636 | - | 292,142 |

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

27 Maturity analysis (Continued)

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Related party transactions

A number of banking transactions were entered into with related parties by the Group in the normal course of business and at arm's length basis. The outstanding balances of the related party transactions at the reporting date, and related expense and income for the period were as follows:

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

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

Note b: Include other shareholders of the Group.

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

28 Related party transactions (Continued)

Key management personnel compensation

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

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

29 Segment reporting

(a) By operating segment

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

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

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

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

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

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 Segment reporting (Continued)

(a) By operating segment (Continued)

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

29 Segment reporting (Continued)

(b) By geographical regions

The following tables provide segment information by geographical area determined with reference to the location of the principal operations of the branches and subsidiaries of the Group.

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

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

NOTES TO THE GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT

30 International claims

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

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

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

REGULATORY DISCLOSURES (UNAUDITED)

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

1 Key prudential ratios

| | | 30 June 2021 | 31 March 2021 | 31 December 2020 | 30 September 2020 | 30 June 2020 |
|---|--|-----------------|------------------|---------------------|----------------------|-----------------|
| Regulatory capital (amount) | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 31,100,458 | 30,674,409 | 30,087,958 | 29,139,337 | 28,092,913 |
| 2 | Tier 1 | 31,100,458 | 30,674,409 | 30,087,958 | 29,139,337 | 28,092,913 |
| 3 | Total capital | 36,797,943 | 36,359,892 | 35,745,052 | 34,767,565 | 33,711,395 |
| Risk Weighted Amounts (RWA) | | | | | | |
| 4 | Total RWA | 178,790,004 | 177,537,392 | 177,769,676 | 180,046,426 | 173,220,973 |
| Risk-based regulatory capital ratios (as a percentage of RWA) | | | | | | |
| 5 | CET1 ratio (%) | 17.4% | 17.3% | 16.9% | 16.2% | 16.2% |
| 6 | Tier 1 ratio (%) | 17.4% | 17.3% | 16.9% | 16.2% | 16.2% |
| 7 | Total capital ratio (%) | 20.6% | 20.5% | 20.1% | 19.3% | 19.5% |
| Additional CET1 buffer requirements (as a percentage of RWA) | | | | | | |
| 8 | Capital conservation buffer requirement (%) | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| 9 | Countercyclical capital buffer requirement (%) | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% |
| 10 | Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 11 | Total AI-specific CET1 buffer requirements (%) | 3.1% | 3.1% | 3.1% | 3.1% | 3.1% |
| 12 | CET1 available after meeting the AI's minimum capital requirements (%) | 11.4% | 11.3% | 10.9% | 10.2% | 10.2% |
| Basel III leverage ratio | | | | | | |
| 13 | Total leverage ratio (LR) exposure measure | 241,395,524 | 240,416,220 | 237,491,724 | 243,295,369 | 236,694,876 |
| 14 | LR (%) | 12.9% | 12.8% | 12.7% | 12.0% | 11.9% |
| Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR) | | | | | | |
| | Applicable to category 1 institution only: | | | | | |
| 15 | Total high quality liquid assets (HQLA) | N/A | N/A | N/A | N/A | N/A |
| 16 | Total net cash outflows | N/A | N/A | N/A | N/A | N/A |
| 17 | LCR (%) | N/A | N/A | N/A | N/A | N/A |
| | Applicable to category 2 institution only: | | | | | |
| 17a | LMR (%) | 61.1% | 58.7% | 56.5% | 55.8% | 56.8% |
| Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR) | | | | | | |
| | Applicable to category 1 institution only: | | | | | |
| 18 | Total available stable funding | N/A | N/A | N/A | N/A | N/A |
| 19 | Total required stable funding | N/A | N/A | N/A | N/A | N/A |
| 20 | NSFR (%) | N/A | N/A | N/A | N/A | N/A |
| | Applicable to category 2A institution only: | | | | | |
| 20a | CFR (%) | 230.2% | 225.7% | 213.9% | 210.1% | 205.9% |

Footnote:

N/A Not applicable

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 30 June 2021 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratio represents the consolidated ratio of the Bank's Hong Kong offices and its overseas branches, Shacom Property (CA), Inc., Shacom Property (NY), Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited, Right Honour Investments Limited, Glory Step Westpoint Investments Limited, Silver Wisdom Westpoint Investments Limited, Shacom Insurance Brokers Limited, KCC 23F Limited, KCC 25F Limited, and KCC 26F Limited computed in accordance with Section 3C(1) of the BCR.

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

The table below shows the balance sheet based on accounting scope of consolidation and the regulatory scope of consolidation, and the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Composition of Regulatory Capital as at 30 June 2021.

Reconciliation of regulatory capital to balance sheet

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

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Reconciliation of regulatory capital to balance sheet (Continued)

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

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital

The Bank has already applied full capital deductions under the BCR. The Composition of Regulatory Capital as at 30 June 2021 is shown below:

| | | Component of regulatory capital reported by bank | Cross-referenced to balance sheet under regulatory scope of consolidation |
|---|---|--|---|
| CET1 capital: instruments and reserves | | | |
| 1 | Directly issued qualifying CET1 capital instruments plus any related share premium | 2,000,000 | (12) |
| 2 | Retained earnings | 19,700,254 | (13) |
| 3 | Disclosed reserves | 11,443,552 | (14) + (15) |
| 4 | Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies) | Not applicable | |
| 5 | Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group) | – | |
| 6 | CET1 capital before regulatory deductions | 33,143,806 | |
| CET1 capital: regulatory deductions | | | |
| 7 | Valuation adjustments | – | |
| 8 | Goodwill (net of associated deferred tax liabilities) | – | |
| 9 | Other intangible assets (net of associated deferred tax liabilities) | – | |
| 10 | Deferred tax assets (net of associated deferred tax liabilities) | 20,867 | (8) |
| 11 | Cash flow hedge reserve | – | |
| 12 | Excess of total EL amount over total eligible provisions under the IRB approach | – | |
| 13 | Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions | – | |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | – | |
| 15 | Defined benefit pension fund net assets (net of associated deferred tax liabilities) | – | |
| 16 | Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet) | – | |
| 17 | Reciprocal cross-holdings in CET1 capital instruments | – | |
| 18 | Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | 1,081,605 | (4) + (5) |
| 19 | Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | |
| 20 | Mortgage servicing rights (net of associated deferred tax liabilities) | Not applicable | |
| 21 | Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities) | Not applicable | |
| 22 | Amount exceeding the 15% threshold | Not applicable | |
| 23 | of which: significant investments in the ordinary share of financial sector entities | Not applicable | |
| 24 | of which: mortgage servicing rights | Not applicable | |
| 25 | of which: deferred tax assets arising from temporary differences | Not applicable | |
| 26 | National specific regulatory adjustments applied to CET1 capital | 940,876 | |
| 26a | Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) | – | |
| 26b | Regulatory reserve for general banking risks | 940,876 | (15) |
| 26c | Securitization exposures specified in a notice given by the Monetary Authority | – | |
| 26d | Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings | – | |
| 26e | Capital shortfall of regulated non-bank subsidiaries | – | |

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

| | | Component of regulatory capital reported by bank | Cross-referenced to balance sheet under regulatory scope of consolidation |
|---|--|---|--|
| 26f | Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base) | – | |
| 27 | Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions | – | |
| 28 | Total regulatory deductions to CET1 capital | 2,043,348 | |
| 29 | CET1 capital | 31,100,458 | |
| AT1 capital: instruments | | | |
| 30 | Qualifying AT1 capital instruments plus any related share premium | – | |
| 31 | of which: classified as equity under applicable accounting standards | – | |
| 32 | of which: classified as liabilities under applicable accounting standards | – | |
| 33 | Capital instruments subject to phase-out arrangements from AT1 capital | – | |
| 34 | AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group) | – | |
| 35 | of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements | – | |
| 36 | AT1 capital before regulatory deductions | – | |
| AT1 capital: regulatory deductions | | | |
| 37 | Investments in own AT1 capital instruments | – | |
| 38 | Reciprocal cross-holdings in AT1 capital instruments | – | |
| 39 | Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | |
| 40 | Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | – | |
| 41 | National specific regulatory adjustments applied to AT1 capital | – | |
| 42 | Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions | – | |
| 43 | Total regulatory deductions to AT1 capital | – | |
| 44 | AT1 capital | – | |
| 45 | Tier 1 capital (Tier 1 = CET1 + AT1) | 31,100,458 | |
| Tier 2 capital: instruments and provisions | | | |
| 46 | Qualifying Tier 2 capital instruments plus any related share premium | 4,249,793 | (10) |
| 47 | Capital instruments subject to phase-out arrangements from Tier 2 capital | – | |
| 48 | Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group) | – | |
| 49 | of which: capital instruments issued by subsidiaries subject to phase-out arrangements | – | |
| 50 | Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital | 1,447,692 | (11) + (15) – (1) – (2) – (3) – (6) – (7) – (9) |
| 51 | Tier 2 capital before regulatory deductions | 5,697,485 | |

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

| | | Component of regulatory capital reported by bank | Cross-referenced to balance sheet under regulatory scope of consolidation |
|---|--|--|---|
| Tier 2 capital: regulatory deductions | | | |
| 52 | Investments in own Tier 2 capital instruments | – | |
| 53 | Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities | – | |
| 54 | Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold) | – | |
| 54a | Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only) | – | |
| 55 | Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions) | – | |
| 55a | Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions) | – | |
| 56 | National specific regulatory adjustments applied to Tier 2 capital | – | |
| 56a | Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital | – | |
| 56b | Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR | – | |
| 57 | Total regulatory adjustments to Tier 2 capital | – | |
| 58 | Tier 2 capital | 5,697,485 | |
| 59 | Total regulatory capital (TC = Tier 1 + Tier 2) | 36,797,943 | |
| 60 | Total risk weighted assets | 178,790,004 | |
| Capital ratios (as a percentage of risk weighted assets) | | | |
| 61 | CET1 capital ratio | 17.4% | |
| 62 | Tier 1 capital ratio | 17.4% | |
| 63 | Total capital ratio | 20.6% | |
| 64 | Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements) | 3.1% | |
| 65 | of which: capital conservation buffer requirement | 2.5% | |
| 66 | of which: bank specific countercyclical capital buffer requirement | 0.6% | |
| 67 | of which: higher loss absorbency requirement | 0.0% | |
| 68 | CET1 (as a percentage of RWA) available after meeting minimum capital requirements | 11.4% | |
| National minima (if different from Basel 3 minimum) | | | |
| 69 | National CET1 minimum ratio | Not applicable | |
| 70 | National Tier 1 minimum ratio | Not applicable | |
| 71 | National Total capital minimum ratio | Not applicable | |

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

| | | Component of regulatory capital reported by bank | Cross-referenced to balance sheet under regulatory scope of consolidation |
|--|---|---|--|
| Amounts below the thresholds for deduction (before risk weighting) | | | |
| 72 | Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation | 3,218,207 | |
| 73 | Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | 573,052 | |
| 74 | Mortgage servicing rights (net of associated deferred tax liabilities) | Not applicable | |
| 75 | Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities) | Not applicable | |
| Applicable caps on the inclusion of provisions in Tier 2 capital | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap) | 1,447,692 | |
| 77 | Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA | 1,981,779 | |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap) | – | |
| 79 | Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA | – | |
| Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022) | | | |
| 80 | Current cap on CET1 capital instruments subject to phase-out arrangements | Not applicable | |
| 81 | Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities) | Not applicable | |
| 82 | Current cap on AT1 capital instruments subject to phase-out arrangements | – | |
| 83 | Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities) | – | |
| 84 | Current cap on Tier 2 capital instruments subject to phase-out arrangements | – | |
| 85 | Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities) | – | |

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

Note to the template:

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

| Row No. | Description | Hong Kong basis | Basel III basis |
|---|--|-----------------|-----------------|
| | Deferred tax assets (“DTA”) (net of associated deferred tax liabilities) | 20,867 | – |
| 10 | <p><u>Explanation</u> 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 2021 are shown below. Full terms and conditions are published in the Bank's website of <http://www.shacombank.com.hk> and are accessible at the following direct link: <http://www.shacombank.com.hk/eng/about/regulatory/20210630.jsp>

| | | Ordinary shares | Subordinated notes due 2027 | Subordinated notes due 2029 |
|----|---|--|--|---|
| 1 | Issuer | Shanghai Commercial Bank Limited | Shanghai Commercial Bank Limited | Shanghai Commercial Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A | ISIN: XS1720518478 | ISIN: XS1892105823 |
| 3 | Governing law(s) of the instrument | Laws of Hong Kong | English law, except that the subordination provisions shall be governed by the laws of Hong Kong. | English Law, except that the subordination provisions shall be governed by the laws of Hong Kong. |
| | Regulatory treatment | | | |
| 4 | Transitional Basel III rules# | N/A | N/A | N/A |
| 5 | Post-transitional Basel III rules+ | Common Equity Tier 1 | Tier 2 | Tier 2 |
| 6 | Eligible at solo*/group/solo and group | Solo and Group | Solo and Group | Solo and Group |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares | Other Tier 2 instruments | Other Tier 2 instruments |
| 8 | Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | HK\$2,000 million | HK\$1,931 million | HK\$2,319 million |
| 9 | Par value of instrument | N/A | US\$250 million | US\$300 million |
| 10 | Accounting classification | Shareholders' equity | Liability-amortised cost | Liability-amortised cost |
| 11 | Original date of issuance | 1951, 1968, 1969, 1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000 | 29 November 2017 | 17 January 2019 |
| 12 | Perpetual or dated | Perpetual | Dated | Dated |
| 13 | Original maturity date | No maturity | 29 November 2027 | 17 January 2029 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | N/A | One-off call date: 29 November 2022. Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA. | One-off call date: 17 January 2024. Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA. |
| 16 | Subsequent call dates, if applicable | N/A | N/A | N/A |

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

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

REGULATORY DISCLOSURES (UNAUDITED)

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

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

Footnote:

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

REGULATORY DISCLOSURES (UNAUDITED)

3 Overview of RWA

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

| | | RWA | | Minimum capital requirements |
|-----|---|--------------------|--------------------|------------------------------|
| | | 30 June 2021 | 31 March 2021 | 30 June 2021 |
| 1 | Credit risk for non-securitization exposures | 155,376,738 | 153,546,831 | 12,430,139 |
| 2 | Of which STC approach | 155,376,738 | 153,546,831 | 12,430,139 |
| 2a | Of which BSC approach | – | – | – |
| 3 | Of which foundation IRB approach | – | – | – |
| 4 | Of which supervisory slotting criteria approach | – | – | – |
| 5 | Of which advanced IRB approach | – | – | – |
| 6 | Counterparty default risk and default fund contributions | 1,732,935 | 1,904,030 | 138,635 |
| 7 | Of which SA-CCR approach | 1,732,935 | – | 138,635 |
| 7a | Of which CEM | – | 1,904,030 | – |
| 8 | Of which IMM(CCR) approach | – | – | – |
| 9 | Of which others | – | – | – |
| 10 | CVA risk | 414,388 | 461,625 | 33,151 |
| 11 | Equity positions in banking book under the simple risk-weight method and internal models method | – | – | – |
| 12 | Collective investment scheme ("CIS") exposures – LTA | Not Applicable | Not Applicable | Not Applicable |
| 13 | CIS exposures – MBA | Not Applicable | Not Applicable | Not Applicable |
| 14 | CIS exposures – FBA | Not Applicable | Not Applicable | Not Applicable |
| 14a | CIS exposures – combination of approaches | Not Applicable | Not Applicable | Not Applicable |
| 15 | Settlement risk | – | – | – |
| 16 | Securitization exposures in banking book | – | – | – |
| 17 | Of which SEC-IRBA | – | – | – |
| 18 | Of which SEC-ERBA (including IAA) | – | – | – |
| 19 | Of which SEC-SA | – | – | – |
| 19a | Of which SEC-FBA | – | – | – |
| 20 | Market risk | 10,250,463 | 10,351,525 | 820,037 |
| 21 | Of which STM approach | 10,250,463 | 10,351,525 | 820,037 |
| 22 | Of which IMM approach | – | – | – |
| 23 | Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect) | Not Applicable | Not Applicable | Not Applicable |
| 24 | Operational risk | 9,582,850 | 9,664,638 | 766,628 |
| 24a | Sovereign concentration risk | – | – | – |
| 25 | Amounts below the thresholds for deduction (subject to 250% RW) | 1,432,630 | 1,608,743 | 114,610 |
| 26 | Capital floor adjustment | – | – | – |
| 26a | Deduction to RWA | – | – | – |
| 26b | Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital | – | – | – |
| 26c | Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital | – | – | – |
| 27 | Total | 178,790,004 | 177,537,392 | 14,303,200 |

REGULATORY DISCLOSURES (UNAUDITED)

4 Countercyclical Capital Buffer (“CCyB”) Ratio

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

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

The following table shows the CCyB ratio, the geographical breakdown of the RWA in relation to private sector credit exposures that are relevant to the calculation of CCyB ratio and which have an applicable JCCyB ratio greater than zero as at 30 June 2021.

| | Jurisdiction | Applicable JCCyB ratio in effect | Total RWA used in computation of CCyB ratio | CCyB ratio | CCyB amount |
|---|---------------|----------------------------------|---|-------------|------------------|
| | | % | HK\$’000 | % | HK\$’000 |
| 1 | Hong Kong SAR | 1.0% | 81,193,874 | | |
| | Sum | | 81,193,874 | | |
| | Total | | 126,717,944 | 0.6% | 1,146,044 |

REGULATORY DISCLOSURES (UNAUDITED)

5 Leverage ratio

The leverage ratio ("LR") represents the consolidated ratio computed in the same regulatory consolidation basis as the capital adequacy ratio. The table below presents the summary comparison of accounting assets against leverage ratio exposure measure as at 30 June 2021.

| | Item | Value under the LR framework |
|----|--|------------------------------|
| 1 | Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions) | 232,111,689 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | (181,608) |
| 2a | Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference | – |
| 3 | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure | – |
| 3a | Adjustments for eligible cash pooling transactions | – |
| 4 | Adjustments for derivative contracts | 1,815,491 |
| 5 | Adjustment for SFTs (i.e. repos and similar secured lending) | – |
| 6 | Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures) | 10,252,468 |
| 6a | Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure | (559,168) |
| 7 | Other adjustments | (2,043,348) |
| 8 | Leverage ratio exposure measure | 241,395,524 |

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

| | | 30 June 2021 | 31 March 2021 |
|--|--|--------------------|--------------------|
| On-balance sheet exposures | | | |
| 1 | On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral) | 231,600,280 | 228,099,231 |
| 2 | Less: Asset amounts deducted in determining Tier 1 capital | (2,043,348) | (2,286,588) |
| 3 | Total on-balance sheet exposures (excluding derivative contracts and SFTs) | 229,556,932 | 225,812,643 |
| Exposures arising from derivative contracts | | | |
| 4 | Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting) | 168,719 | 756,758 |
| 5 | Add-on amounts for PFE associated with all derivative contracts | 1,976,573 | 2,633,441 |
| 6 | Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework | – | – |
| 7 | Less: Deductions of receivables assets for cash variation margin provided under derivative contracts | – | – |
| 8 | Less: Exempted CCP leg of client-cleared trade exposures | – | – |
| 9 | Adjusted effective notional amount of written credit-related derivative contracts | – | – |
| 10 | Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts | – | – |
| 11 | Total exposures arising from derivative contracts | 2,145,292 | 3,390,199 |

REGULATORY DISCLOSURES (UNAUDITED)

5 Leverage ratio (Continued)

| | | 30 June 2021 | 31 March 2021 |
|--|---|--------------------|--------------------|
| Exposures arising from SFTs | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | – | – |
| 13 | Less: Netted amounts of cash payables and cash receivables of gross SFT assets | – | – |
| 14 | CCR exposure for SFT assets | – | – |
| 15 | Agent transaction exposures | – | – |
| 16 | Total exposures arising from SFTs | – | – |
| Other off-balance sheet exposures | | | |
| 17 | Off-balance sheet exposure at gross notional amount | 46,509,747 | 51,395,252 |
| 18 | Less: Adjustments for conversion to credit equivalent amounts | (36,257,279) | (39,639,645) |
| 19 | Off-balance sheet items | 10,252,468 | 11,755,607 |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 31,100,458 | 30,674,409 |
| 20a | Total exposures before adjustments for specific and collective provisions | 241,954,692 | 240,958,449 |
| 20b | Adjustments for specific and collective provisions | (559,168) | (542,229) |
| 21 | Total exposures after adjustments for specific and collective provisions | 241,395,524 | 240,416,220 |
| Leverage ratio | | | |
| 22 | Leverage ratio | 12.9% | 12.8% |

Footnote:

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

REGULATORY DISCLOSURES (UNAUDITED)

6 Credit risk

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

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

(b) Changes in defaulted loans and debt securities

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

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

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

REGULATORY DISCLOSURES (UNAUDITED)

6 Credit risk (Continued)

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

| Exposure classes | Exposures pre-CCF and pre-CRM | | Exposures post-CCF and post-CRM | | RWA and RWA density | |
|--|-------------------------------|--------------------------|---------------------------------|--------------------------|---------------------|-------------|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA density |
| 1 Sovereign exposures | 11,345,278 | – | 11,357,955 | – | 44,458 | – |
| 2 PSE exposures | 3,615,430 | 250,000 | 3,602,753 | 125,000 | 745,551 | 20% |
| 2a Of which: domestic PSEs | 3,615,430 | 250,000 | 3,602,753 | 125,000 | 745,551 | 20% |
| 2b Of which: foreign PSEs | – | – | – | – | – | – |
| 3 Multilateral development bank exposures | 1,233,993 | – | 1,233,993 | – | – | – |
| 4 Bank exposures | 71,718,519 | 263,193 | 71,935,221 | 64,426 | 27,814,806 | 39% |
| 5 Securities firm exposures | 1,279,399 | 1,918,653 | 1,279,399 | – | 639,700 | 50% |
| 6 Corporate exposures | 108,797,620 | 32,629,737 | 107,945,265 | 5,460,311 | 103,067,572 | 91% |
| 7 CIS exposures | – | – | – | – | – | – |
| 8 Cash items | 842,676 | – | 1,860,717 | – | 143,021 | 8% |
| 9 Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | – | – | – | – | – | – |
| 10 Regulatory retail exposures | 3,884,570 | 2,386,001 | 3,801,408 | 128,126 | 2,947,151 | 75% |
| 11 Residential mortgage loans | 8,991,061 | 2,151,779 | 8,988,609 | 1,067,364 | 4,871,686 | 48% |
| 12 Other exposures which are not past due exposures | 15,207,243 | 6,910,384 | 14,910,469 | 100,853 | 15,011,323 | 100% |
| 13 Past due exposures | 90,099 | – | 90,099 | – | 91,470 | 102% |
| 14 Significant exposures to commercial entities | – | – | – | – | – | – |
| 15 Total | 227,005,888 | 46,509,747 | 227,005,888 | 6,946,080 | 155,376,738 | 66% |

REGULATORY DISCLOSURES (UNAUDITED)

6 Credit risk (Continued)

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

| Exposure class | | Risk Weight | | | | | | | | | | Total credit risk exposures amount (post CCF and post CRM) |
|----------------|--|-------------------|----------|-------------------|------------------|-------------------|------------------|--------------------|--------------|----------|----------|--|
| | | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Others | |
| 1 | Sovereign exposures | 11,135,665 | - | 222,290 | - | - | - | - | - | - | - | 11,357,955 |
| 2 | PSE exposures | - | - | 3,727,753 | - | - | - | - | - | - | - | 3,727,753 |
| 2a | Of which: domestic PSEs | - | - | 3,727,753 | - | - | - | - | - | - | - | 3,727,753 |
| 2b | Of which: foreign PSEs | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Multilateral development bank exposures | 1,233,993 | - | - | - | - | - | - | - | - | - | 1,233,993 |
| 4 | Bank exposures | - | - | 31,673,914 | - | 37,691,417 | - | 2,634,316 | - | - | - | 71,999,647 |
| 5 | Securities firm exposures | - | - | - | - | 1,279,399 | - | - | - | - | - | 1,279,399 |
| 6 | Corporate exposures | - | - | 1,248,012 | - | 18,679,188 | - | 93,478,376 | - | - | - | 113,405,576 |
| 7 | CIS exposures | - | - | - | - | - | - | - | - | - | - | - |
| 8 | Cash items | 1,421,346 | - | 370,438 | - | - | - | 68,933 | - | - | - | 1,860,717 |
| 9 | Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | - | - | - | - | - | - | - | - | - | - | - |
| 10 | Regulatory retail exposures | - | - | - | - | - | 3,929,534 | - | - | - | - | 3,929,534 |
| 11 | Residential mortgage loans | - | - | - | 7,915,747 | - | 156,204 | 1,984,022 | - | - | - | 10,055,973 |
| 12 | Other exposures which are not past due exposures | - | - | - | - | - | - | 15,011,322 | - | - | - | 15,011,322 |
| 13 | Past due exposures | - | - | 172 | - | - | - | 86,910 | 3,017 | - | - | 90,099 |
| 14 | Significant exposures to commercial entities | - | - | - | - | - | - | - | - | - | - | - |
| 15 | Total | 13,791,004 | - | 37,242,579 | 7,915,747 | 57,650,004 | 4,085,738 | 113,263,879 | 3,017 | - | - | 233,951,968 |

REGULATORY DISCLOSURES (UNAUDITED)

7 Counterparty credit risk

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

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

(b) CVA capital charge as at 30 June 2021

| | | EAD post CRM | RWA |
|---|--|------------------|----------------|
| | Netting sets for which CVA capital charge is calculated by the advanced CVA method | | |
| 1 | (i) VaR (after application of multiplication factor if applicable) | | – |
| 2 | (ii) Stressed VaR (after application of multiplication factor if applicable) | | – |
| 3 | Netting sets for which CVA capital charge is calculated by the standardized CVA method | 2,171,320 | 414,388 |
| 4 | Total | 2,171,320 | 414,388 |

REGULATORY DISCLOSURES (UNAUDITED)

7 Counterparty credit risk (Continued)

(c) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach as at 30 June 2021

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

REGULATORY DISCLOSURES (UNAUDITED)

7 Counterparty credit risk (Continued)

(d) Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) as at 30 June 2021

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

(e) Credit-related derivatives contracts

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

(f) Exposures to CCPs

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

8 Market risk

Market risk under STM approach as at 30 June 2021

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

SHANGHAI COMMERCIAL BANK LIMITED

GROUP INTERIM FINANCIAL DISCLOSURE STATEMENT 2021

(All amounts in HK dollar thousands unless otherwise stated)

REGULATORY DISCLOSURES (UNAUDITED)
9 Non-bank Mainland exposures

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

REGULATORY DISCLOSURES (UNAUDITED)

10 Currency concentrations

As at 30 June 2021

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

As at 31 December 2020

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

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

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

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

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

REVIEW OF OPERATIONS

Financial Review

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

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

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

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

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

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

Highlights of Business Performance

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

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

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

REVIEW OF OPERATIONS

Highlights of Business Performance (Continued)

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

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

Sustainability

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

Bank Culture

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

Looking Ahead

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

STATEMENT OF COMPLIANCE

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

Stephen Ching Yen LEE
Chairman

David Sek-chi KWOK
Managing Director and Chief Executive

Hong Kong, 25 August 2021

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF SHANGHAI COMMERCIAL BANK LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 1 to 40, which comprises the interim condensed consolidated statement of financial position of Shanghai Commercial Bank Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2021 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 August 2021