



BANK OF SHANGHAI (HONG KONG) LIMITED

2021 INTERIM FINANCIAL STATEMENTS

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

CONTENTS

	Page(s)
Financial Review	1
Condensed Consolidated Statement of Comprehensive Income (Unaudited)	2
Condensed Consolidated Statement of Financial Position (Unaudited)	3
Condensed Consolidated Statement of Changes in Equity (Unaudited)	4
Condensed Consolidated Statement of Cash Flows (Unaudited)	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Review Report to the Board of Directors	30

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

Bank of Shanghai (Hong Kong) Limited (the “Company”) is pleased to present the interim financial statements of the Company and its subsidiaries (the “Group”) for the first half of 2021 ended 30 June 2021. The condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows, and the condensed consolidated statement of changes in equity for the six months period ended 30 June 2021, and the condensed consolidated statement of financial position as at 30 June 2021 of the Group, along with the explanatory notes (all of which are unaudited) are illustrated on pages 6 to 29 of this interim financial statements.

In preparing the unaudited interim financial statements and the Regulatory Disclosure Statements for the first half of 2021, the Company has fully complied with the disclosure requirements stipulated in the Banking (Disclosure) Rules.

Financial Review

The Group’s pre-tax profit for the period was HK\$237 million, which increased by 72% as compared with the same period of the previous year. It should be noted that the Group’s operating results included a foreign exchange translation gain of HK\$9 million (first half of 2020: loss of HK\$19 million) on the capital denominated in Renminbi (“RMB”) due to appreciation of RMB against HK Dollar during the period. The increase in the pre-tax profit was mainly driven by the increase in net interest income and net income/(loss) from financial instruments measured at fair value. Net interest income increased by 21% to HK\$386 million mainly attributable to an increase in the average interest earning asset size.

Operating expenses increased by 9% to HK\$134 million. Allowances for credit and other losses were HK\$151 million, 12% higher than the same period last year, which is mainly contributed by the new impairment charge for non-performing loans. The increase in allowances for credit and other losses is partly offset by release of impairment charge for other financial assets at Stage 1&2 of the Group, driven by the recovering global economy in first half of 2021 from COVID-19 pandemic. Total gross loans and advances to customers remained stable at HK\$20,254 million (2020 year end: HK\$20,598 million), customer deposits decreased by 5% to HK\$13,101 million.

The Group’s financial position remained sound. Total capital adequacy ratio was maintained at a comfortable level at 18.4%, and the average liquidity maintenance ratio (“LMR”) at 74.1%. Both ratios are calculated on unconsolidated basis and adequately met the statutory requirements.

IBOR transition

Interbank offered rates (‘IBORs’) are used to set interest rates on different types of financial transactions at US dollars and are used extensively for valuation purposes, risk measurement and performance benchmarking. On 5 March 2021, the UK Financial Conduct Authority (FCA) confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative, immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings, and immediately after 30 June 2023, in the case of the remaining US dollar settings. The Group is in the process of communicating with customers and counterparties to remediate existing LIBOR contracts with them.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Interest income		527,120	637,634
Interest expense		(140,927)	(319,527)
Net interest income	4	386,193	318,107
Net fee and commission income	5	66,657	68,229
Net income/(loss) from financial instruments measured at fair value	6	57,360	(1,297)
Net income from investment securities		12,476	11,317
Other operating income		327	155
Total operating income		523,013	396,511
Operating expenses	7	(134,327)	(123,206)
Operating profit before impairment losses		388,686	273,305
Allowances for credit and other losses	8	(151,236)	(135,127)
Profit before taxation		237,450	138,178
Taxation	9	(38,158)	(21,096)
Profit for the period		199,292	117,082
Other comprehensive income for the period, net of tax			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for subsidiaries		3,176	(7,753)
Net movement in revaluation reserve	10	(137,822)	2,428
Total comprehensive income for the period		64,646	111,757

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Assets			
Cash and balances with banks and central bank	11	1,357,284	5,566,050
Placements with and advances to banks	12	1,374,667	946,652
Financial assets at fair value through profit or loss		1,027,213	936,327
Derivative financial assets	20	36,440	46,471
Loans and advances to customers	13	19,903,739	20,119,960
Investment securities	14	11,931,469	10,027,566
Investment in associate		4,419	4,171
Property and equipments	15	23,373	39,080
Intangible assets		2,616	3,177
Current tax recoverable		33,805	26,147
Deferred tax assets		68,973	46,976
Other assets	16	295,289	981,929
TOTAL ASSETS		<u>36,059,287</u>	<u>38,744,506</u>
Liabilities			
Deposits from customers	17	13,101,427	13,818,746
Deposits from banks		4,927,530	7,160,226
Financial assets sold under repurchase agreement		164,744	–
Derivative financial liabilities	20	29,046	116,647
Certificates of deposit and other debt securities issued	18	11,352,502	10,723,277
Current tax payable		74,831	62,038
Deferred tax liabilities		59	461
Lease liabilities		20,420	33,373
Short-term borrowings		619,400	1,250,111
Other liabilities	19	429,623	304,568
TOTAL LIABILITIES		<u>30,719,582</u>	<u>33,469,447</u>
Capital and reserves			
Share capital	22	4,000,000	4,000,000
Retained profits		1,368,177	1,168,885
Other reserves		(28,472)	106,174
TOTAL EQUITY		<u>5,339,705</u>	<u>5,275,059</u>
TOTAL EQUITY AND LIABILITIES		<u>36,059,287</u>	<u>38,744,506</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$'000	Retained profits HK\$'000	Revaluation reserve HK\$'000	Regulatory reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
Balance at 1 January 2020	4,000,000	941,077	86,099	–	(17,406)	5,009,770
Profit for the period	–	117,082	–	–	–	117,082
Other comprehensive income	–	–	2,428	–	(7,753)	(5,325)
Total comprehensive income	–	117,082	2,428	–	(7,753)	111,757
Transfers	–	–	–	–	–	–
Balance at 30 June 2020 and 1 July 2020	4,000,000	1,058,159	88,527	–	(25,159)	5,121,527
Profit for the period	–	110,726	–	–	–	110,726
Other comprehensive income	–	–	13,492	–	29,314	42,806
Total comprehensive income	–	110,726	13,492	–	29,314	153,532
Transfers	–	–	–	–	–	–
Balance at 31 December 2020 and 1 January 2021	4,000,000	1,168,885	102,019	–	4,155	5,275,059
Profit for the period	–	199,292	–	–	–	199,292
Other comprehensive income	–	–	(137,822)	–	3,176	(134,646)
Total comprehensive income	–	199,292	(137,822)	–	3,176	64,646
Transfers	–	–	–	–	–	–
Balance at 30 June 2021	<u>4,000,000</u>	<u>1,368,177</u>	<u>(35,803)</u>	<u>–</u>	<u>7,331</u>	<u>5,339,705</u>

The regulatory reserve is maintained in accordance with Hong Kong Banking regulations. At 30 June 2021, no regulatory reserve (2020: Nil) was required to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve was made directly through retained profits after consultation with the Hong Kong Monetary Authority. The regulatory reserve is non-distributable.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Notes	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Net cash inflow/(outflow) from operating activities	21(a)	2,442,697	(1,151,808)
Investing activities			
Proceeds from sale and redemption of investment securities		9,875,962	4,245,956
Purchase of investment securities		(11,828,981)	(3,748,305)
Purchases of property and equipments and intangible assets		(648)	(2,739)
Purchase of interests in associates		–	(3,615)
Sale of interests in associates		212	–
Interest received from investment securities		245,398	259,338
Net cash (outflow)/inflow from investing activities		(1,708,057)	750,635
Financing activities			
Redemption from other debt securities		(3,876,171)	–
Interest paid for other debt securities		(84,792)	(60,833)
Proceeds from short-term borrowings		–	1,687,954
Redemption from short-term borrowings		(630,711)	–
Interest paid for short-term borrowings		(3,563)	(14,433)
Payment of lease liabilities		(13,674)	(13,486)
Net cash (outflow)/inflow from financing activities	21(d)	(4,608,911)	1,599,202
(Decrease)/increase in cash and cash equivalents		(3,874,271)	1,198,029
Cash and cash equivalents at 1 January		6,432,448	4,385,605
Cash and cash equivalents at 30 June	21(b)	2,558,177	5,583,634

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF CONSOLIDATION

The interim financial statements covers the consolidated positions of the Company and its subsidiaries.

For regulatory reporting purposes, the Company is required to compute its capital adequacy ratios and leverage ratio on an unconsolidated basis that is different from the basis of consolidation for accounting purposes. The basis is illustrated in the note 3(a) of the Regulatory Disclosure Statements.

(2) BASIS OF PREPARATION

(a) Accounting policies

These condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They were authorised for issuance on 24 September 2021.

The accounting policies applied in preparing the condensed consolidated financial statements are the same as those applied in preparing the financial statements for the year ended 31 December 2020 as disclosed in the Group’s Directors’ Report and Consolidated Financial Statements for the year ended 31 December 2020, which were prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), except for the accounting policy changes that are expected to be reflected in 2021 annual financial statements. Details of any changes in accounting policies are set out in note (2)(b).

The preparation of an interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed consolidated financial statements contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs. PricewaterhouseCooper’s independent review report to the Board of Directors is included on page 30.

These condensed consolidated financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers 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 HKICPA.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(2) BASIS OF PREPARATION (CONTINUED)

(b) New and amended standards

A number of new or amended standards became applicable for the current reporting period, and the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

The Group has applied the following amendments to HKFRSs issued by the HKICPA to interim financial report for the current accounting period:

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform phase 2*

None of the amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim Condensed Consolidated Financial Statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(c) Critical accounting estimates

The preparation of interim financial statements requires management to exercise judgements, use estimates and make assumptions that affect the application of policies and reported amounts in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. In preparing this condensed consolidated financial statements, critical accounting estimates and assumptions used that are significant to the interim financial statements, and areas involving a higher degree of judgement and complexity were the same as those disclosed in the consolidated financial statements for the year ended 31 December 2020.

(3) CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND STATUTORY FINANCIAL STATEMENTS

The financial information relating to the year ended 31 December 2020 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2021 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Group has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 622(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).

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(4) NET INTEREST INCOME

Interest income mainly accrued on loan and advances to customers and investment securities amounted to HK\$257,582,000 and HK\$265,707,000 respectively (first half of 2020: HK\$315,591,000 and HK\$298,102,000 respectively).

Interest income calculated using the effective interest method amounted to HK\$527,120,000 (first half of 2020: HK\$637,634,000).

Interest expense mainly recognised on deposits from customers and certificates of deposit and other debt securities issued amounted to HK\$52,038,000 and HK\$57,102,000 respectively (first half of 2020: HK\$127,743,000 and HK\$93,911,000 respectively).

Interest expense recognised on financial liabilities that was not measured at fair value through profit or loss amounted to HK\$140,927,000 (first half of 2020: HK\$318,051,000).

The interest income accrued on impaired financial assets and on unwinding of discount on loan impairment allowances amounted to HK\$9,411,000 for the six months ended 30 June 2021 (first half of 2020: immaterial).

(5) NET FEE AND COMMISSION INCOME

	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Fee and commission income		
– Credit facilities	7,515	10,942
– Trade services	1,127	978
– Corporate advisory	55,548	59,056
– Asset management	8,816	5,859
– Brokerage	–	10
– Others	4,176	70
	<u>77,182</u>	<u>76,915</u>
Fee and commission expense	<u>(10,525)</u>	<u>(8,686)</u>
Net fee and commission income	<u><u>66,657</u></u>	<u><u>68,229</u></u>

Fee and commission income of HK\$77,182,000 (first half of 2020: HK\$76,915,000) and fee and commission expense of HK\$10,525,000 (first half of 2020: HK\$8,686,000) for the six months ended 30 June 2021 arose from financial assets and financial liabilities that were not measured at fair value through profit or loss.

Net fee and commission income arose from trust or other fiduciary activities in which the Group held or invested on behalf of its customers for the six months ended 30 June 2021 was HK\$8,816,000 (first half of 2020: HK\$5,859,000).

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(6) NET INCOME/(LOSS) FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Foreign exchange	24,534	(7,043)
Interest rate and others	32,826	5,746
	<u>57,360</u>	<u>(1,297)</u>

The foreign exchange gain in 2021 included the translation gain of HK\$9 million (first half of 2020: loss of HK\$19 million) on those Renminbi (“RMB”) assets funded by the Company’s capital denominated in RMB (which was recorded on these financial statements at historical exchange rate) due to the appreciation of RMB against HKD in 2021. Excluding this translation gain, trading income from normal foreign exchange activities was HK\$16 million (first half of 2020: HK\$12 million).

(7) OPERATING EXPENSES

	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Staff costs		
– Salaries and other benefits	91,897	82,632
– Pension and provident funds	3,285	3,491
	<u>95,182</u>	<u>86,123</u>
Premises and equipment expenses excluding depreciation		
– Variable lease payments not included in the measurement of lease liabilities	30	235
– Maintenance and office facility expenses	1,975	1,617
– Others	629	640
	<u>2,634</u>	<u>2,492</u>
Auditors’ remuneration	298	371
Depreciation of property and equipments	3,127	3,196
Amortisation of right-of-use (“RoU”) assets	12,925	12,763
Amortisation of intangible assets	979	1,492
Legal and professional fees	2,576	2,543
IT and systems expenses	5,517	5,661
Data subscription fees	2,866	2,476
Other operating expenses	8,223	6,089
	<u>36,511</u>	<u>34,591</u>
	<u>134,327</u>	<u>123,206</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(8) ALLOWANCES FOR CREDIT AND OTHER LOSSES

	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Cash and balances with banks and central bank	(262)	103
Placements with and advances to banks	(441)	(54)
Loans and advances to customers	136,624	71,614
Investment securities	(2,327)	7,681
Other assets	18,896	58,772
Off-balance sheet credit exposures	(1,254)	(2,989)
	<u>151,236</u>	<u>135,127</u>

The table below shows the movements in Stage 3 ECL and Stage 1 & 2 ECL during the period.

	Balance at 1 January HK\$'000	Charge to / (release from) statement of comprehensive income HK\$'000	Recoveries HK\$'000	Write-off HK\$'000	Exchange and other movements HK\$'000	Balance at 30 June HK\$'000
2021						
Stage 3 ECL						
Loans and advances to customers	248,849	153,333	-	(256,123)	(8,436)	137,623
Other assets	20,624	18,896	-	(31,525)	(597)	7,398
	<u>269,473</u>	<u>172,229</u>	<u>-</u>	<u>(287,648)</u>	<u>(9,033)</u>	<u>145,021</u>
Stage 1&2 ECL						
Cash and balances with banks and central bank	330	(262)	-	-	-	68
Placements with and advances to banks	770	(441)	-	-	-	329
Loans and advances to customers	229,394	(16,709)	-	-	-	212,685
Investment securities	117,899	(2,327)	-	-	-	115,572
Off-balance sheet credit exposures	10,737	(1,254)	-	-	-	9,483
	<u>359,130</u>	<u>(20,993)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338,137</u>
Total general allowances	<u>359,130</u>	<u>(20,993)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338,137</u>
Total allowances for credit and other losses	<u>628,603</u>	<u>151,236</u>	<u>-</u>	<u>(287,648)</u>	<u>(9,033)</u>	<u>483,158</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(8) ALLOWANCES FOR CREDIT AND OTHER LOSSES (CONTINUED)

	Balance at 1 January HK\$'000	Charge to/(release from) statement of comprehensive income HK\$'000	Recoveries HK\$'000	Write-off HK\$'000	Exchange and other movements HK\$'000	Balance at 30 June HK\$'000
2020						
Stage 3 ECL						
Loans and advances to customers	113,783	58,002	–	–	(532)	171,253
Other assets	8,351	58,772	–	–	(39)	67,084
	<u>122,134</u>	<u>116,774</u>	<u>–</u>	<u>–</u>	<u>(571)</u>	<u>238,337</u>
Stage 1&2 ECL						
Cash and balances with banks and central bank	190	103	–	–	–	293
Placements with and advances to banks	864	(54)	–	–	–	810
Loans and advances to customers	170,872	13,612	–	–	–	184,484
Investment securities	93,203	7,681	–	–	–	100,884
Off-balance sheet credit exposures	11,600	(2,989)	–	–	–	8,611
	<u>276,729</u>	<u>18,353</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>295,082</u>
Total allowances for credit and other losses	<u>398,863</u>	<u>135,127</u>	<u>–</u>	<u>–</u>	<u>(571)</u>	<u>533,419</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(9) TAXATION

Taxation in the condensed consolidated statement of comprehensive income is illustrated below:

	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Current tax		
Hong Kong profits tax		
– Provision for the period	23,121	16,657
– Over-provision in prior year	–	(195)
	<u>23,121</u>	<u>16,462</u>
Taxation outside Hong Kong		
– Withholding tax in the People's Republic of China	18	3
– Provision for the period	10,185	8,658
	<u>33,324</u>	<u>25,123</u>
Deferred tax		
Origination and reversal of temporary differences	<u>4,834</u>	<u>(4,027)</u>
	<u>38,158</u>	<u>21,096</u>

The provision for Hong Kong profits tax was calculated at 16.5% (2020: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the countries in which the Group operates.

(10) OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Financial assets at fair value through other comprehensive income:		
Changes in fair value recognised during the period	(152,580)	14,397
Reclassification adjustments for amounts transferred to profit or loss upon disposal	(12,476)	(11,317)
Net deferred tax (debited)/credited to revaluation reserve	<u>27,234</u>	<u>(652)</u>
Net movement in revaluation reserve during the period recognised in other comprehensive income	<u>(137,822)</u>	<u>2,428</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(11) CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Balances with banks	1,290,924	4,620,066
Balances with central bank	66,428	946,314
	<u>1,357,352</u>	<u>5,566,380</u>
Allowance for credit and other losses at stage 1	(68)	(330)
	<u>1,357,284</u>	<u>5,566,050</u>

A subsidiary of the Company maintains segregated accounts with authorised institutions as a result of its normal business transaction. At 30 June 2021, segregated accounts dealt within these financial statements amounted to HK\$301,000 (2020: HK\$300,000).

(12) PLACEMENTS WITH AND ADVANCES TO BANKS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Gross placements with and advances to banks		
– maturing within one month	1,219,697	566,379
– maturing between one and twelve months	155,299	381,043
	<u>1,374,996</u>	<u>947,422</u>
Allowance for credit and other losses at stage 1	(329)	(770)
	<u>1,374,667</u>	<u>946,652</u>

There were no overdue, impaired or rescheduled placements with and advances to banks for the periods indicated.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(13) LOANS AND ADVANCES TO CUSTOMERS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Gross loans and advances to customers	20,254,047	20,598,203
Less: Allowance for credit and other losses		
– Stage 1 & 2 ECL	(212,685)	(229,394)
– Stage 3 ECL	(137,623)	(248,849)
	<u>19,903,739</u>	<u>20,119,960</u>
Comprising:		
– Trade bills	–	20,091
– Loans	19,903,739	20,099,869
	<u>19,903,739</u>	<u>20,119,960</u>

Loans and advances to customers by credit quality

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 30 June 2021				
Neither past due nor impaired				
– Pass	19,706,980	–	–	19,706,980
– Special Mention	–	298,589	–	298,589
Past due but not impaired ^(a)	–	–	–	–
Impaired	–	–	248,478	248,478
Allowance for credit and other losses	(156,191)	(56,494)	(137,623)	(350,308)
	<u>19,550,789</u>	<u>242,095</u>	<u>110,855</u>	<u>19,903,739</u>
As at 31 December 2020				
Neither past due nor impaired				
– Pass	19,793,957	–	–	19,793,957
– Special Mention	–	300,344	–	300,344
Past due but not impaired ^(a)	–	–	–	–
Impaired	–	–	503,902	503,902
Allowance for credit and other losses	(206,963)	(22,431)	(248,849)	(478,243)
	<u>19,586,994</u>	<u>277,913</u>	<u>255,053</u>	<u>20,119,960</u>

(a) The past due but not impaired assets are classified as “Pass”.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(14) INVESTMENT SECURITIES

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Investment securities measured at amortised cost at stage 1	2,845,152	1,765,647
Allowance for credit and other losses at stage 1	(22,739)	(50,208)
	<u>2,822,413</u>	<u>1,715,439</u>
	-----	-----
Investment securities at fair value through other comprehensive income at stage 1	9,077,118	8,312,127
Investment securities at fair value through other comprehensive income at stage 2	31,938	—
	<u>9,109,056</u>	<u>8,312,127</u>
	-----	-----
	<u>11,931,469</u>	<u>10,027,566</u>
	=====	=====

As at 30 June 2021 and 31 December 2020, there were no investment securities individually determined to be impaired.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(15) PROPERTY AND EQUIPMENTS

Details of movement of property and equipments are as follows:

	Leasehold improvements HK\$'000	Furniture, computer and other equipments HK\$'000	Motor vehicles HK\$'000	RoU assets – properties and office equipment HK\$'000	Total HK\$'000
Cost:					
At 1 January 2020	22,196	23,679	2,902	82,047	130,824
Additions	180	1,511	–	280	1,971
Write-off	–	(1,351)	–	–	(1,351)
Exchange adjustments	–	142	76	1,122	1,340
At 31 December 2020	<u>22,376</u>	<u>23,981</u>	<u>2,978</u>	<u>83,449</u>	<u>132,784</u>
At 1 January 2021	22,376	23,981	2,978	83,449	132,784
Additions	43	188	–	–	231
Write-off	–	(7)	–	–	(7)
Exchange adjustments	–	20	10	157	187
At 30 June 2021	<u>22,419</u>	<u>24,182</u>	<u>2,988</u>	<u>83,606</u>	<u>133,195</u>
Accumulated depreciation:					
At 1 January 2020	(14,914)	(20,502)	(1,506)	(25,578)	(62,500)
Charge for the year	(4,000)	(2,079)	(418)	(25,609)	(32,106)
Write-off	–	1,351	–	–	1,351
Exchange adjustments	–	(96)	(27)	(326)	(449)
At 31 December 2020	<u>(18,914)</u>	<u>(21,326)</u>	<u>(1,951)</u>	<u>(51,513)</u>	<u>(93,704)</u>
At 1 January 2021	(18,914)	(21,326)	(1,951)	(51,513)	(93,704)
Charge for the period	(2,055)	(855)	(217)	(12,925)	(16,052)
Write-off	–	7	–	–	7
Exchange adjustments	–	(14)	(4)	(55)	(73)
At 30 June 2021	<u>(20,969)</u>	<u>(22,188)</u>	<u>(2,172)</u>	<u>(64,493)</u>	<u>(109,822)</u>
Net book value:					
At 30 June 2021	<u>1,450</u>	<u>1,994</u>	<u>816</u>	<u>19,113</u>	<u>23,373</u>
At 31 December 2020	<u>3,462</u>	<u>2,655</u>	<u>1,027</u>	<u>31,936</u>	<u>39,080</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(16) OTHER ASSETS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Interest receivables (note a)	199,839	196,635
Collaterals placed (note b)	24,382	103,649
Fees receivable	12,310	16,432
Prepaid expenses	8,952	17,189
Accounts receivable (note c)	17,887	8,549
Trade date receivable	23,655	631,350
Others	8,264	8,125
	<u>295,289</u>	<u>981,929</u>

Note a: Included Stage 3 ECL of interest receivable of HK\$3,547,000 associated with loans and advances to customers at stage 3 as at 30 June 2021 (2020: HK\$18,807,000).

Note b: Mainly relates to cash collaterals placed in respect of derivative financial liabilities.

Note c: Included Stage 3 ECL of accounts receivable of HK\$3,851,000 associated with loans and advances to customers at stage 3 as at 30 June 2021 (2020: HK\$1,818,000).

(17) DEPOSITS FROM CUSTOMERS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Deposits from customers		
– time, call and notice deposits	<u>13,101,427</u>	<u>13,818,746</u>

(18) CERTIFICATES OF DEPOSIT AND OTHER DEBT SECURITIES ISSUED

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Certificates of deposits issued at amortised costs	7,489,648	2,995,366
Other debt securities issued at amortised costs (note 21(d))	<u>3,862,854</u>	<u>7,727,911</u>
	<u>11,352,502</u>	<u>10,723,277</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(19) OTHER LIABILITIES

	30 June 2021	31 December 2020
	HK\$'000	HK\$'000
Interest payable	52,375	135,816
Account payable (note d)	2,974	3,888
Accrued expenses	2,997	8,774
Provision for short term employee benefits	48,039	75,755
Collateral received	36,632	39,595
Trade date payable	218,603	–
Others (note e)	68,003	40,740
	<u>429,623</u>	<u>304,568</u>

Note d: Included a balance of HK\$301,000 (2020: HK\$300,000) for the money held on behalf of clients at the segregated bank accounts which are repayable on demand.

Note e: Included allowance for credit and other losses of HK\$9,483,000 (2020: HK\$10,737,000).

(20) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are presented in net when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at 30 June 2021, no derivative financial instruments have fulfilled the above criteria, therefore no derivative financial instruments were offset on the condensed consolidated statement of financial position (2020: Nil).

Derivatives – held for trading

	At 30 June 2021			At 31 December 2020		
	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000
Exchange rate contracts	5,338,545	26,205	3,570	4,605,063	30,904	79,207
Interest rate contracts	1,450,898	10,235	25,476	1,546,825	15,567	37,440
	<u>6,789,443</u>	<u>36,440</u>	<u>29,046</u>	<u>6,151,888</u>	<u>46,471</u>	<u>116,647</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(21) NOTES TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to net cash outflow from the operating activities

	Notes	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Profit before taxation		237,450	138,178
Adjustments for:			
Interest income		(527,120)	(637,634)
Interest expense		140,927	319,527
Depreciation of property and equipments	7	3,127	3,196
Amortisation of right-of-use assets	7	12,925	12,763
Amortisation of intangible assets	7	979	1,492
Impairment charges	8	151,236	135,127
Net income from investment securities		(12,476)	(11,317)
Interest received		243,495	319,740
Interest paid		(117,588)	(276,502)
Elimination of exchange differences and other non-cash items		(80,340)	(36,277)
Operating profit/(loss) before changes in working capital		52,615	(31,707)
Changes in financial assets at fair value through profit or loss		(84,555)	(102,094)
Change in balances and placements with banks and advances to banks with original maturity beyond three months		11,678	155,922
Change in gross loans and advances to customers		98,955	(1,299,541)
Change in other assets		80,119	(44,613)
Change in deposits from banks		(1,601,345)	504,647
Change in deposits from customers		(717,319)	(753,596)
Change in certificates of deposit issued		4,474,847	1,311,317
Change in financial assets sold under repurchase agreement		164,744	(550,067)
Change in financial liabilities at fair value through profit or loss		–	(111,765)
Change in other liabilities		(8,156)	(152,708)
Cash from/(used in) operating activities		2,471,583	(1,074,205)
Hong Kong profits tax paid		(10,867)	(53,960)
Tax paid outside Hong Kong		(18,019)	(23,643)
Net cash inflow/(outflow) from operating activities		2,442,697	(1,151,808)

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(21) NOTES TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Cash and cash equivalents in the condensed consolidated statement of cash flows

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Gross cash and balances with banks and central bank (note 11)	1,357,352	1,599,376
Less: Balances with banks for segregated accounts	(301)	(301)
Gross placements with banks with original maturity within three months	1,005,631	1,857,211
Investment securities with original maturity within three months	195,495	2,127,348
	<u>2,558,177</u>	<u>5,583,634</u>

(c) Reconciliation with the condensed consolidated statement of financial position

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Cash and balances with banks and central bank (note 11)	1,357,352	1,599,376
Gross placements with and advances to banks (note 12)	1,374,996	1,966,746
Investment securities	11,954,208	13,996,308
	<u>14,686,556</u>	<u>17,562,430</u>
Amounts shown in the condensed consolidated statement of financial position	14,686,556	17,562,430
Less: Balances, gross placements with and advances to banks and investment securities with an original maturity beyond three months	(12,128,078)	(11,978,495)
Less: Balances with banks for segregated accounts	(301)	(301)
	<u>2,558,177</u>	<u>5,583,634</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(21) NOTES TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Other debt securities issued (note 18) \$'000	Short-term borrowings \$'000	Lease Liabilities \$'000	Total \$'000
At 1 January 2020	3,886,385	51,485	57,496	3,995,366
Changes from financing cash flow:				
Net proceeds from short-term borrowings	–	1,198,626	–	1,198,626
Proceeds from the issuance of other debt securities	3,848,279	–	–	3,848,279
Capital element of lease rentals paid	–	–	(24,428)	(24,428)
Interest element of lease rentals paid	–	–	(1,821)	(1,821)
Interest paid	(135,283)	(16,355)	–	(151,638)
Total changes from financing cash flow	3,712,996	1,182,271	(26,249)	4,869,018
Increase in lease liabilities from entering new lease during the period	–	–	280	280
Interest expense	135,283	16,355	1,821	153,459
Exchange difference	(6,753)	–	25	(6,728)
Total other changes	128,530	16,355	2,126	147,011
At 31 December 2020 and 1 January 2021	7,727,911	1,250,111	33,373	9,011,395
Changes from financing cash flow:				
Redemption from other debt securities	(3,876,171)	–	–	(3,876,171)
Net proceeds from short-term borrowings	–	(630,711)	–	(630,711)
Capital element of lease rentals paid	–	–	(13,063)	(13,063)
Interest element of lease rentals paid	–	–	(611)	(611)
Interest paid	(84,792)	(3,563)	–	(88,355)
Total changes from financing cash flow	(3,960,963)	(634,274)	(13,674)	(4,608,911)
Interest expense	88,525	3,563	611	92,699
Exchange difference	7,381	–	110	7,491
Total other changes	95,906	3,563	721	100,190
At 30 June 2021	3,862,854	619,400	20,420	4,502,674

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(22) SHARE CAPITAL

	No. of shares '000	HK\$'000
Ordinary shares, issued and fully paid:		
At 30 June 2021 and 31 December 2020	<u>360,439</u>	<u>4,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(23) CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Contract amounts		
– Trade-related contingencies	–	–
– Transaction-related contingencies	10,860	10,860
– Other commitments:		
– which are unconditionally cancellable	3,118,180	2,489,450
– with an original maturity under one year	145,725	145,567
– with an original maturity over one year	<u>531,664</u>	<u>191,250</u>
	<u>3,806,429</u>	<u>2,837,127</u>
Credit risk-weighted amount	<u>294,977</u>	<u>124,738</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(24) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: fair value measured using quoted market prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: fair value measured using valuation techniques based on observable inputs, either directly or indirectly. This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: fair value measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value and the discount rate used is a discount rate at the end of reporting period applicable for an instrument with similar terms and conditions.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

The table below analyses financial instruments, measured at fair value as at 30 June 2021 and 31 December 2020, by the level in the fair value hierarchy into which the fair value treatment is categorised.

At 30 June 2021

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	459,768	567,445	1,027,213
Derivative financial assets (note 20)	–	36,440	–	36,440
Investment securities at fair value through other comprehensive income (note 14)	702,460	8,406,596	–	9,109,056
	<u>702,460</u>	<u>8,406,596</u>	<u>–</u>	<u>9,109,056</u>
Liabilities				
Derivative financial liabilities (note 20)	–	29,046	–	29,046
	<u>–</u>	<u>29,046</u>	<u>–</u>	<u>29,046</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

At 31 December 2020

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	444,906	491,421	936,327
Derivative financial assets (note 20)	–	46,471	–	46,471
Investment securities at fair value through other comprehensive income (note 14)	458,181	7,853,946	–	8,312,127
	<u>458,181</u>	<u>7,853,946</u>	<u>–</u>	<u>8,312,127</u>
Liabilities				
Derivative financial liabilities (note 20)	–	116,647	–	116,647
	<u>–</u>	<u>116,647</u>	<u>–</u>	<u>116,647</u>

During the six months ended 30 June 2021 and the year of 2020, there were no transfers of financial instruments between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of the debt securities in Level 2 is determined using broker quotes as at the end of the reporting period.

Valuation of financial instruments with significant unobservable inputs

The fair value of financial assets at fair value through profit and loss in Level 3 is determined using the most recent transactions. As at 30 June 2021, it is estimated that with all other variable held constant, an increase/decrease in the price of same products by 5% would have increased/decreased the Group's equity by HK\$21.3 million (2020: HK\$18.4 million).

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

The movement during the period in the balance of these Level 3 fair value measurements are as follows:

	Assets					
	Wealth	Convertible	Return of	Unlisted	Usufruct of	Total
	management					
	products	bonds	interest	investments	assets	
from banks					HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	–	341,274	112,920	37,227	–	491,421
Payment for purchases	79,907	–	–	2,607	122,085	204,599
Disposal/redemption for the products	(79,978)	(47,743)	–	–	–	(127,721)
Other changes	71	1,860	172	(1,043)	(1,914)	(854)
At 30 June 2021	–	295,391	113,092	38,791	120,171	567,445
Total gains or losses for the period reclassified from other comprehensive income on disposal	–	–	–	–	–	–
Total gains or losses for the period included in profit or loss for assets held during the reporting period:						
– Net income/(loss) from financial instruments measured at fair value	–	17,779	7,383	(780)	–	24,382
– Other operating income	114	–	–	–	–	114

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

	Assets			Liabilities	
	Wealth management products from banks HK\$'000	Convertible bonds HK\$'000	Unlisted equity investments HK\$'000	Unlisted issued notes payable HK\$'000	Total HK\$'000
At 1 January 2020	–	352,060	25,013	(111,765)	265,308
Payment for purchases	173,834	27,559	104,058	–	305,451
Disposal/redemption for the products	(156,915)	(145,664)	–	111,440	(191,139)
Other changes	(489)	(7,217)	(499)	325	(7,880)
At 30 June 2020	16,430	226,738	128,572	–	371,740
Total gains or losses for the period reclassified from other comprehensive income on disposal	–	–	–	–	–
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period:					
– Net income/(loss) from financial instruments measured at fair value	–	17,162	–	–	17,162
– Other operating income	290	–	–	–	290

(b) Financial assets and liabilities not measured at fair value

Financial assets and liabilities that were presented not at their fair value on the condensed consolidated statement of financial position mainly represented cash and balances with banks and central bank, placements with and advances to banks, loans and advances to customers and investment securities at amortised costs. These financial assets were measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the condensed consolidated statement of financial position mainly included deposits from banks, deposits from customers and certificates of deposit issued. These financial liabilities were measured at amortised cost.

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial assets and liabilities not measured at fair value (continued)

The Group assessed that the differences between fair values and carrying amounts of those financial assets and liabilities not presented on the Group's condensed consolidated statement of financial position at their fair values are minimal as most of the Group's financial assets and liabilities are either short-term or priced at floating rates, except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts at 30 June 2021 HK\$'000	Fair value at 30 June 2021 HK\$'000	Fair value measurements as at 30 June 2021 categorised into		
			Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets					
Investments securities at amortised cost, net of ECL (note 14)	2,822,413	2,754,131	–	2,754,131	–
Liabilities					
Other debt securities issued at amortised cost (note 18)	3,862,854	3,868,808	–	3,868,808	–
			Fair value measurements as at 31 December 2020 categorised into		
	Carrying amounts at 31 December 2020 HK\$'000	Fair value at 31 December 2020 HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets					
Investments securities at amortised cost, net of ECL (note 14)	1,715,439	1,730,307	–	1,730,307	–
Liabilities					
Other debt securities issued at amortised cost (note 18)	7,727,911	7,733,494	–	7,733,494	–

BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(25) MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group entered into transactions with related parties in the normal course of business including accepting and placement of inter-bank deposits, conducting correspondent banking and foreign exchange transactions. All these related party transactions were priced at the relevant market rates at the time of each transaction.

The amount of material related party transactions during the period and outstanding balances at the reporting date are set out below:

	Immediate and ultimate holding company	
	6 months ended 30 June 2021 HK\$'000	6 months ended 30 June 2020 HK\$'000
Consolidated statement of profit or loss and other comprehensive income:		
Interest income	28	46
Interest expense	(2,715)	(19,750)
Net fee and commission income	1,168	563
Other operating income	114	290
	<u> </u>	<u> </u>
	30 June 2021	31 December 2020
Consolidated statement of financial position:	HK\$'000	HK\$'000
Amounts due from:		
– Cash and balances with banks and central bank	13,728	11,244
– Other assets	2,035	3,151
Amounts due to:		
– Deposits from banks	1,863,587	1,356,660
– Other liabilities	358	787
– Lease liabilities	11,131	13,424
	<u> </u>	<u> </u>

(26) IMMEDIATE AND ULTIMATE HOLDING COMPANY

As at 30 June 2021, the Company's immediate and ultimate holding company is Bank of Shanghai Co., Limited, which is incorporated in the People's Republic of China. Bank of Shanghai Co., Limited produces financial statements available for public access.

(27) EVENTS AFTER REPORTING PERIOD

Subsequent to the end of reporting period, there is a significant change in the market sentiment in respect of certain issuers in the real estate sector in China and this has impacted the carrying value of investment securities held by the Group. The Group is closely monitoring the market development and assessing the financial impact to the Group.

Report On Review of Interim Financial Information
To the Board of Directors of Bank of Shanghai (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 29, which comprises the condensed consolidated statement of financial position of Bank of Shanghai (Hong Kong) Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2021 and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the 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 Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 September 2021