

BANK OF SHANGHAI (HONG KONG) LIMITED

**INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

**BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL DISCLOSURE STATEMENTS
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BANK OF SHANGHAI (HONG KONG) LIMITED
INTERIM FINANCIAL DISCLOSURE STATEMENTS
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Bank of Shanghai (Hong Kong) Limited (the “Company”) is pleased to present the interim financial disclosure statement of the Company and its subsidiaries (the “Group”) for the first half of 2017 ended 30 June 2017. 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 2017, and the condensed consolidated statement of financial position as at 30 June 2017 of the Group, (all of which are unaudited) along with the explanatory notes are illustrated on pages 2 to 24 of this interim financial disclosure statements.

Financial Review

The Group’s pre-tax profit for the period was HK\$68 million, which increased by 6% 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\$33 million (2016: loss of HK\$17 million) on the capital denominated in Renminbi (“RMB”) due to appreciation of RMB against HK Dollar during the period and an individually assessed impairment charge for a sub-standard loan. Before accounting for these two items, the Group’s operating profit before taxation was HK\$182 million, an increase of HK\$87 million or 93% as compared with the same period of the previous year.

Total loans and advances to customers were up by 3% to HK\$13,152 million from 2016 year end, while customer deposits rose by 21% to HK\$12,327 million as the Group continued to expand its customer and deposit base. During the period, a syndicated loan in which we participated was in default and the amount was subsequently being provided based on the latest update of the debt restructuring plan. Other than this non-performing loan, the overall assets quality remained satisfactory.

The Group’s financial position continued sound. Total capital adequacy ratio was maintained at a comfortable level at 25.4%, and the average liquidity maintenance ratio (“LMR”) at 55.5%. Both ratios adequately met the statutory requirements.

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Interest income		365,475	212,296
Interest expense		(171,601)	(86,937)
Net interest income	5	193,874	125,359
Net fee and commission income	6	39,888	33,375
Net trading gain/(loss)	7	59,486	(7,327)
Other operating income		1	48
Total operating income		293,249	151,455
Operating expenses	8	(77,796)	(67,838)
Operating profit before impairment losses		215,453	83,617
Impairment charges on loans and other assets	9	(136,218)	(5,881)
Net loss on sale of investment securities		(647)	–
Profit before taxation		78,588	77,736
Taxation	10	(11,063)	(14,204)
Profit for the period		67,525	63,532
Other comprehensive income for the period net of tax			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Net movement in available-for-sale fair value reserve	11	9,760	1,320
Total comprehensive income for the period		77,285	64,852

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Assets			
Cash and balances with banks and central bank	12	259,381	168,859
Placements with and advances to banks	13	7,280,493	6,688,686
Derivative financial assets	21	17	2,863
Loans and advances to customers	14	13,151,525	12,776,048
Investment securities	15	1,699,951	1,215,629
Property and equipment	16	23,102	24,891
Intangible assets		6,302	6,276
Deferred tax assets		9,129	13,055
Other assets	17	144,021	161,384
TOTAL ASSETS		<u>22,573,921</u>	<u>21,057,691</u>
Liabilities			
Deposits from customers	18	12,326,843	10,199,152
Deposits from banks		3,080,239	4,544,487
Derivative financial liabilities	21	24,276	52,887
Certificates of deposit issued	19	2,648,157	1,935,066
Current tax payable		24,505	13,989
Deferred tax liabilities		209	206
Other liabilities	20	182,716	102,213
TOTAL LIABILITIES		<u>18,286,945</u>	<u>16,848,000</u>
Capital and reserves			
Share capital		4,000,000	4,000,000
Retained profits		211,778	149,506
Other reserves		75,198	60,185
TOTAL EQUITY		<u>4,286,976</u>	<u>4,209,691</u>
TOTAL EQUITY AND LIABILITIES		<u>22,573,921</u>	<u>21,057,691</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Note	Share capital HK\$'000	Retained profits HK\$'000	Available-for-sale fair value reserve/ (deficit) HK\$'000	Regulatory reserve HK\$'000	Total HK\$'000
Balance at 1 January 2016		2,000,000	57,546	(1,864)	54,021	2,109,703
Changes in equity for the six months ended 30 June 2016:						
Profit for the period		–	63,532	–	–	63,532
Other comprehensive income	11	–	–	1,320	–	1,320
Total comprehensive income		–	63,532	1,320	–	64,852
Issue of ordinary shares		400,000	–	–	–	400,000
Transfer to regulatory reserve		–	(15,853)	–	15,853	–
Balance at 30 June 2016 and 1 July 2016		2,400,000	105,225	(544)	69,874	2,574,555
Changes in equity for the six months ended 31 December 2016:						
Profit for the period		–	61,964	–	–	61,964
Other comprehensive income		–	–	(26,828)	–	(26,828)
Total comprehensive income		–	61,964	(26,828)	–	35,136
Issue of ordinary shares		1,600,000	–	–	–	1,600,000
Transfer to regulatory reserve		–	(17,683)	–	17,683	–
Balance at 31 December 2016 and 1 January 2017		4,000,000	149,506	(27,372)	87,557	4,209,691
Changes in equity for the six months ended 30 June 2017:						
Profit for the period		–	67,525	–	–	67,525
Other comprehensive income	11	–	–	9,760	–	9,760
Total comprehensive income		–	67,525	9,760	–	77,285
Transfer to regulatory reserve		–	(5,253)	–	5,253	–
Balance at 30 June 2017		4,000,000	211,778	(17,612)	92,810	4,286,976

The regulatory reserve is maintained to satisfy the provisions of 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.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Notes	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Net cash inflow/(outflow) from operating activities	22(a)	218,336	(47,903)
Investing activities			
Proceeds from sale and redemption of investment securities		783,823	–
Purchase of investment securities		(1,189,454)	(352,399)
Purchases of property and equipment and intangible assets		(3,827)	(10,792)
Interest received from investment securities		15,350	3,717
Net cash outflow from investing activities		(394,108)	(359,474)
Financing activities			
Issuance of share capital		–	400,000
Net cash inflow from financing activities		–	400,000
Decrease in cash and cash equivalents		(175,772)	(7,377)
Cash and cash equivalents at 1 January		6,231,465	5,287,312
Cash and cash equivalents at 30 June	22(b)	6,055,693	5,279,935

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF CONSOLIDATION

The interim financial disclosure statements cover 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

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”). These interim financial disclosure statements were authorised for issuance on 28 September 2017.

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 2016 as disclosed in the Group’s Directors’ Report and Consolidated Financial Statements for the year ended 31 December 2016, which were prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”).

During the period, the Group has adopted the following amendments to standards which have insignificant or no effect on the condensed consolidated financial statements:

- Disclosure initiative (Amendments to HKAS 7, Statement of Cash Flow)
- “Recognition of deferred tax assets for unrealised losses” Amendments to HKAS 12 Income taxes
- Annual Improvements to HKFRSs 2014-2016 Cycle

Information on future accounting development and their potential effect on the condensed consolidated financial statements are provided in note 32 on the consolidated financial statements of the Group’s Directors’ Report and Consolidated Financial Statements for the year ended 31 December 2016.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgments, 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. In preparing the condensed consolidated financial statements, the significant areas of judgment made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

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

(3) CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND STATUTORY FINANCIAL STATEMENTS

The financial information relating to the year ended 31 December 2016 that is included in the condensed consolidated financial statements 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 is stated below:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Group's auditor's report was made on those financial statements which was unqualified and 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.

(4) STATEMENT OF COMPLIANCE

In preparing the unaudited interim financial disclosure statements and the Regulatory Disclosure Statements for the first half of 2017, the Company has fully complied with the disclosure requirements stipulated in the Banking (Disclosure) Rules.

(5) NET INTEREST INCOME

Interest income recognised on financial assets that was not measured at fair value through profit or loss amounted to HK\$365,475,000 (first half of 2016: HK\$212,296,000).

Interest expense recognised on financial liabilities that was not measured at fair value through profit or loss amounted to HK\$171,601,000 (first half of 2016: HK\$86,937,000).

There was no interest income accrued on impaired financial assets and on unwinding of discount on loan impairment allowances for the six months ended 30 June 2017 and 30 June 2016.

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(6) NET FEE AND COMMISSION INCOME

	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Fee and commission income		
– Credit facilities	15,701	21,771
– Trade services	571	497
– IPO sponsorship	–	6,995
– Underwriting	252	732
– Corporate advisory	11,215	1,950
– Asset management	7,068	–
– Brokerage	4,402	–
– Others	1,282	1,811
	<u>40,491</u>	<u>33,756</u>
Fee and commission expense	<u>(603)</u>	<u>(381)</u>
Net fee and commission income	<u><u>39,888</u></u>	<u><u>33,375</u></u>

Fee and commission income of HK\$16,743,000 (first half of 2016: HK\$22,289,000) and fee and commission expense of HK\$262,000 (first half of 2016: HK\$113,000) for the six months ended 30 June 2017 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 2017 was HK\$7,068,000 (first half of 2016: nil).

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(7) NET TRADING GAIN/(LOSS)

	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Foreign exchange	58,493	(7,327)
Interest rate and others	993	–
	<u>59,486</u>	<u>(7,327)</u>

The foreign exchange gain in 2017 included the translation gain of HK\$33 million (2016: loss of HK\$17 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 2017. Excluding this translation gain, foreign exchange trading gain from normal activities was HK\$25 million (2016: HK\$9 million).

(8) OPERATING EXPENSES

	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Staff costs		
– Salaries and other benefits	46,079	36,655
– Pension and provident funds	2,082	2,478
	<u>48,161</u>	<u>39,133</u>
Premises and equipment expenses excluding depreciation		
– Rental of premises	9,866	11,655
– Maintenance and office facility expenses	1,492	1,600
– Others	759	875
	<u>12,117</u>	<u>14,130</u>
Auditors’ remuneration	336	326
Depreciation of property and equipment	4,264	4,699
Amortisation of intangible assets	1,326	1,612
Legal and professional fees	3,032	1,960
IT and systems expenses	3,683	2,734
Other operating expenses	4,877	3,244
	<u>17,518</u>	<u>14,575</u>
	<u>77,796</u>	<u>67,838</u>

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(9) IMPAIRMENT CHARGES ON LOANS AND OTHER ASSETS

	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Individual impairment allowances on loans and advances to customers	134,515	–
Collective impairment allowances on loans and advances to customers	(133)	5,881
Individual impairment allowances on other assets	1,836	–
	<u>136,218</u>	<u>5,881</u>
Individual impairment allowances on loans and advances to customers		
– New allowances	<u>134,515</u>	<u>–</u>
Collective impairment allowances on loans and advances to customers		
– New allowances	–	5,881
– Releases	(133)	–
	<u>(133)</u>	<u>5,881</u>
Individual impairment allowances on other assets		
– New allowances	<u>1,836</u>	<u>–</u>

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(10) TAXATION

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

	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Current tax		
Hong Kong profits tax		
Provision for the period	10,651	15,974
Taxation outside Hong Kong		
Withholding tax in the People's Republic of China	—	164
	<u>10,651</u>	<u>16,138</u>
Deferred tax		
Origination and reversal of temporary differences	<u>412</u>	<u>(1,934)</u>
	<u><u>11,063</u></u>	<u><u>14,204</u></u>

The provision for Hong Kong profits tax was calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the period.

(11) OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Available-for-sale financial assets:		
Changes in fair value recognised during the period	12,627	1,320
Reclassification adjustments for amounts transferred to profit or loss upon disposal	647	—
Net deferred tax credited to available-for-sale fair value reserve	<u>(3,514)</u>	<u>—</u>
Net movement in available-for-sale fair value reserve during the period recognised in other comprehensive income	<u><u>9,760</u></u>	<u><u>1,320</u></u>

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(12) CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Balances with banks	256,059	138,527
Balances with central bank	3,322	30,332
	<u>259,381</u>	<u>168,859</u>

(13) PLACEMENTS WITH AND ADVANCES TO BANKS

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Placements with and advances to banks		
– maturing within one month	4,238,495	3,416,761
– maturing between one and twelve months	3,041,998	2,839,713
– maturing of more than one year	–	432,212
	<u>7,280,493</u>	<u>6,688,686</u>

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

(14) LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Gross loans and advances to customers	13,326,740	12,816,638
Less: loan impairment allowances		
– individually assessed	(134,758)	–
– collectively assessed	(40,457)	(40,590)
	<u>13,151,525</u>	<u>12,776,048</u>

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(14) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Impaired advances

	30 Jun 2017		31 Dec 2016	
	HK\$'000	%	HK\$'000	%
Gross impaired advances	273,186	2.1	–	–
Individual impairment allowances	(134,758)		–	
	<u>138,428</u>		<u>–</u>	
Impaired advances covered by collateral	<u>–</u>		<u>–</u>	

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

There were no loans and advances overdue for more than 3 months as at 30 June 2017 and 31 December 2016.

(d) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are inferior to the original payment terms. The rescheduled loans and advances are stated net of any loans and advances that have subsequently become overdue for over three months and reported as overdue loans and advances as above.

As at 30 June 2017 and 31 December 2016, there were no other overdue and rescheduled assets.

(e) Loan impairment allowances against loans and advances to customers

	Individually assessed HK\$'000	Collectively assessed HK\$'000	Total HK\$'000
At 1 January 2016	(249)	(25,784)	(26,033)
Charges	–	(14,806)	(14,806)
Release	249	–	249
At 31 December 2016	–	(40,590)	(40,590)
Charges	(134,758)	–	(134,758)
Release	–	133	133
At 30 June 2017	<u>(134,758)</u>	<u>(40,457)</u>	<u>(175,215)</u>

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

(14) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Gross loans and advances to customers by industry sector

	30 Jun 2017		31 Dec 2016	
	HK\$'000	% of gross advances covered by collaterals	HK\$'000	% of gross advances covered by collaterals
Gross loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial sectors				
– property development	165,552	18.1	996,196	94.7
– property investment	65,787	100.0	63,649	100.0
– financial concerns	2,087,554	63.7	1,668,908	64.4
– stockbrokers	–	–	442,206	–
– wholesale and retail trade	51,826	77.4	248,177	59.5
– manufacturing	762,709	3.4	826,357	3.2
– transport and transport equipment	366,614	4.0	210,602	2.9
– others	1,153,393	81.0	1,123,755	74.0
	<u>4,653,435</u>	52.5	<u>5,579,850</u>	55.4
Individuals	<u>152,631</u>	1.3	<u>155,485</u>	1.3
Total gross loans and advances for use in Hong Kong	4,806,066	50.8	5,735,335	54.0
Trade finance	436,852	4.2	467,916	5.5
Gross loans and advances for use outside Hong Kong	<u>8,083,822</u>	38.0	<u>6,613,387</u>	31.6
Gross loans and advances to customers	<u><u>13,326,740</u></u>	41.6	<u><u>12,816,638</u></u>	40.7

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(14) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(g) Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the borrower after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the borrower.

	Gross loans and advances HK\$'000	Individually impaired loans and advances HK\$'000	Overdue loans and advances HK\$'000	Individually assessed allowances HK\$'000	Collectively assessed allowances HK\$'000
At 30 June 2017					
China	8,558,357	195,133	–	(96,256)	(23,559)
Hong Kong	4,417,712	78,053	–	(38,502)	(15,635)
Others	350,671	–	–	–	(1,263)
	<u>13,326,740</u>	<u>273,186</u>	<u>–</u>	<u>(134,758)</u>	<u>(40,457)</u>
At 31 December 2016					
China	7,595,216	–	–	–	(21,794)
Hong Kong	4,878,374	–	–	–	(17,562)
Others	343,048	–	–	–	(1,234)
	<u>12,816,638</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(40,590)</u>

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

(15) INVESTMENT SECURITIES

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Available-for-sale	1,467,205	1,215,629
Held-to-maturity	232,746	–
	<u>1,699,951</u>	<u>1,215,629</u>
Exchange fund bills	99,943	99,408
Debt securities	1,600,008	1,116,221
	<u>1,699,951</u>	<u>1,215,629</u>
Issued by:		
– Sovereigns	115,511	99,408
– Public sector entities	122,572	122,509
– Banks	423,794	447,183
– Corporates	1,038,074	546,529
	<u>1,699,951</u>	<u>1,215,629</u>

As at 30 June 2017 and 31 December 2016, there were no investment securities individually determined to be impaired.

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(16) PROPERTY AND EQUIPMENT

Details of movement of property and equipment are as follows:

	Leasehold improvements HK\$'000	Furniture, computer and other equipments HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1 January 2016	23,794	14,252	1,007	39,053
Additions	6,834	4,967	–	11,801
Write-off	(9,328)	–	–	(9,328)
At 31 December 2016	<u>21,300</u>	<u>19,219</u>	<u>1,007</u>	<u>41,526</u>
At 1 January 2017	21,300	19,219	1,007	41,526
Additions	97	2,378	–	2,475
At 30 June 2017	<u>21,397</u>	<u>21,597</u>	<u>1,007</u>	<u>44,001</u>
Accumulated depreciation:				
At 1 January 2016	(8,583)	(7,590)	(651)	(16,824)
Charge for the year	(4,396)	(4,492)	(251)	(9,139)
Write-off	9,328	–	–	9,328
At 31 December 2016	<u>(3,651)</u>	<u>(12,082)</u>	<u>(902)</u>	<u>(16,635)</u>
At 1 January 2017	(3,651)	(12,082)	(902)	(16,635)
Charge for the period	(1,825)	(2,334)	(105)	(4,264)
At 30 June 2017	<u>(5,476)</u>	<u>(14,416)</u>	<u>(1,007)</u>	<u>(20,899)</u>
Net book value:				
At 30 June 2017	<u>15,921</u>	<u>7,181</u>	<u>–</u>	<u>23,102</u>
At 31 December 2016	<u>17,649</u>	<u>7,137</u>	<u>105</u>	<u>24,891</u>

The Group had leased equipment under finance lease expiring in 5 years. None of these leases contained contingent rentals.

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(17) OTHER ASSETS

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Interest receivable (Note 1)	100,487	97,884
Collateral placed	19,669	44,202
Fee receivable	2,787	4,354
Customer liability under acceptances	8,782	541
Account receivable	2,660	–
Prepaid expenses	1,937	4,050
Others	7,699	10,353
	<u>144,021</u>	<u>161,384</u>

Note 1: The balance as at 30 June 2017 included individual impairment allowances of HK\$1,836,000 (31 December 2016: Nil).

(18) DEPOSITS FROM CUSTOMERS

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Deposits from customers		
– time, call and notice deposits	<u>12,326,843</u>	<u>10,199,152</u>
	<u>12,326,843</u>	<u>10,199,152</u>

(19) CERTIFICATES OF DEPOSIT ISSUED

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Certificates of deposit issued		
– measured at amortised cost	<u>2,648,157</u>	<u>1,935,066</u>
	<u>2,648,157</u>	<u>1,935,066</u>

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(20) OTHER LIABILITIES

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Interest payable	86,705	69,530
Account payable	3,529	256
Accrued expenses	6,300	3,627
Provision for short term employee benefits	10,430	14,000
Acceptances outstanding	8,782	541
Payable in respect of unmatured purchase	49,081	–
Others	17,889	14,259
	<u>182,716</u>	<u>102,213</u>

(21) 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 2017, no derivative financial instruments have fulfilled the above criteria, therefore no derivative financial instruments were offset on the consolidated statement of financial position (2016: Nil).

Derivatives – held for trading

	<u>At 30 Jun 2017</u>				<u>At 31 Dec 2016</u>			
	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000	Credit risk- weighted amounts HK\$'000	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000	Credit risk- weighted amounts HK\$'000
Exchange rate contracts								
– Spot and forward	–	–	–	–	277,040	4	9,278	546
– Swap	1,083,332	–	24,276	4,046	1,215,824	2,859	43,609	4,550
Interest rate contracts								
– Swap	30,404	17	–	34	–	–	–	–
	<u>1,113,736</u>	<u>17</u>	<u>24,276</u>	<u>4,080</u>	<u>1,492,864</u>	<u>2,863</u>	<u>52,887</u>	<u>5,096</u>

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(22) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	6 months ended 30 Jun 2017 HK\$'000	6 months ended 30 Jun 2016 HK\$'000
Profit before taxation	78,588	77,736
Adjustments for:		
Interest income	(365,475)	(212,296)
Interest expense	171,601	86,937
Depreciation of property and equipment	4,264	4,699
Amortisation of intangible assets	1,326	1,612
Impairment charges	136,218	5,881
Net loss on sale of investment securities	647	–
Interest received	320,624	192,215
Interest paid	(150,342)	(94,292)
Operating profit before changes in working capital	197,451	62,492
Change in balances and placements with banks with original maturity beyond three months	(858,101)	276,919
Change in gross loans and advances to customers	(486,569)	(2,183,783)
Change in other assets	28,911	25,038
Change in deposits from banks	2,127,691	1,071,743
Change in deposits from customers	(1,464,247)	802,690
Change in certificates of deposit issued	688,641	(52,904)
Change in other liabilities	6,005	(59,467)
Elimination of exchange differences and other non-cash items	(20,611)	9,611
Cash generated from/(used in) operating activities	219,171	(47,661)
Hong Kong profits tax paid	(835)	–
Withholding tax in the People's Republic of China paid	–	(242)
Net cash inflow/(outflow) from operating activities	218,336	(47,903)

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(22) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Cash and balances with banks and central bank	259,016	803,026
Placements with banks with original maturity within three months	5,796,677	4,476,909
	<u>6,055,693</u>	<u>5,279,935</u>

(c) Reconciliation with the consolidated statement of financial position

	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Cash and balances with banks and central bank	259,381	803,026
Placements with and advances to banks	7,280,493	6,059,168
	<u>7,539,874</u>	<u>6,862,194</u>
Amounts shown in the consolidated statement of financial position	7,539,874	6,862,194
Less: Balances, placements with and advances to banks with an original maturity beyond three months	1,484,181	1,582,259
	<u>6,055,693</u>	<u>5,279,935</u>

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(23) CONTINGENT LIABILITIES AND COMMITMENTS

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Contract amounts		
– Direct credit substitutes	139,721	136,609
– Trade-related contingencies	18,577	21,430
– Other commitments:		
– which are unconditionally cancellable	1,052,932	865,508
– with an original maturity under one year	487,795	310,188
– with an original maturity over one year	221,897	143,607
	<u>1,920,922</u>	<u>1,477,342</u>
Credit risk weighted amount	<u>201,562</u>	<u>135,470</u>

(24) FAIR VALUE OF FINANCIAL INSTRUMENT

(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.

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

(24) FAIR VALUE OF FINANCIAL INSTRUMENT (CONTINUED)

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

Where available, the most suitable measure for fair value is the quoted market price. In the 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 the reporting period applicable for an instrument with similar terms and conditions.

The table below analyses financial instruments, measured at fair value as at 30 June 2017 and 31 December 2016, by the level in the fair value hierarchy into which the fair value treatment is categorised.

At 30 June 2017

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Assets				
Derivative financial assets	–	17	–	17
Investment securities	99,943	1,367,262	–	1,467,205
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Derivative financial liabilities	–	24,276	–	24,276
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At 31 December 2016

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Assets				
Derivative financial assets	–	2,863	–	2,863
Investment securities	99,408	1,116,221	–	1,215,629
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Derivative financial liabilities	–	52,887	–	52,887
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

(24) FAIR VALUE OF FINANCIAL INSTRUMENT (CONTINUED)

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

During the six months ended 30 June 2017 and the year of 2016, 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.

Financial assets and liabilities that were presented not at their fair value on the 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 held-to-maturity investment securities. These financial assets were measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the 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.

The Group assessed that the differences between the fair values and the carrying amounts of those financial assets and liabilities not presented in the Group's consolidated statement of financial position at their fair values were insignificant as most of the Group's financial assets and liabilities were either short-term or priced at floating rates.

(25) MATERIAL RELATED PARTY TRANSACTIONS

There were no changes in the related party transactions described in the Group's Directors' Report and Consolidated Financial Statements for the year ended 31 December 2016 that have had a material impact on the financial position or performance of the Group in the first half of 2017.