

BANK OF SHANGHAI (HONG KONG) LIMITED

**REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
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CONTENTS

	Pages
Introduction	1
Capital Adequacy	1
Composition of Capital	3
Leverage Ratio	13
Overview of Risk-weighted Amount	16
Credit Risk	17
Counterparty Credit Risk	21
Market Risk Under Standardized Approach	22
International Claims	22
Further Analysis of Loans and Advances to Customers	23
Non-bank Mainland Exposures	24
Currency Concentration	26
Liquidity Disclosures	26

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

1 INTRODUCTION

The information contained in this document is for Bank of Shanghai (Hong Kong) Limited (“**the Company**”) and its subsidiaries (together “**the Group**”) and is prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the Hong Kong Monetary Authority (“**HKMA**”).

Basis of preparation

For regulatory reporting purpose, the Company is required to report its capital adequacy ratios, leverage ratios and liquidity maintenance ratio (“**LMR**”) on an unconsolidated basis. The other financial information contained in this document is prepared based on an unconsolidated base unless otherwise specified.

In calculating the risk-weighted amount (“**RWA**”), the Company adopted the Standardised (Credit Risk) Approach for credit risk and the Standardised (Market Risk) Approach for market risk. For operational risk, the capital requirement was determined by using the Basic Indicator Approach.

2 CAPITAL ADEQUACY

(a) Capital adequacy ratio

The capital adequacy ratios were calculated in according with the Banking (Capital) Rules issued by the HKMA.

	30 June 2017 %	31 March 2017 %	31 December 2016 %
Capital adequacy ratios			
Common Equity Tier 1	24.6	27.6	30.0
Tier 1	24.6	27.6	30.0
Total	25.4	28.5	30.9
	30 June 2017 HK'000	31 March 2017 HK'000	31 December 2016 HK'000
Capital			
Common Equity Tier 1	3,832,663	4,216,778	4,121,288
Tier 1	3,832,663	4,216,778	4,121,288
Total	3,965,931	4,354,102	4,249,435
Total RWA	15,609,691	15,283,674	13,733,301

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

2 CAPITAL ADEQUACY (CONTINUED)

(b) Capital buffers

The following capital buffer ratios applicable for the Company on an unconsolidated basis are as follows:

	As at 30 June 2017	As at 31 December 2016
	%	%
Capital conservation buffer ratio	1.250	0.625
Higher loss absorbency ratio	–	–
Countercyclical capital buffer (“CCyB”) ratio	0.505	0.253
Total	1.755	0.878

(c) Geographical Distribution of RWA related to Credit Exposures used in the Countercyclical Capital Buffer Ratio

The table below sets out the geographical breakdown of the RWA of private sector credit exposures relevant for the computation of the countercyclical capital buffer.

		As at 30 June 2017			
	Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK\$’000	CCyB ratio %	CCyB amount HK\$’000
1	Hong Kong	1.25	4,049,890		
2	Mainland China	–	5,462,534		
3	Chinese Taipei	–	222,091		
4	Germany	–	10,663		
5	Singapore	–	126,402		
6	Switzerland	–	23,761		
7	United Kingdom	–	48,877		
8	United States	–	71,042		
	Total		10,015,260	0.505	50,624

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL

(a) Financial Statements and Regulatory Scope of Consolidation

Capital adequacy ratios were calculated in accordance with the Capital Rules issued by the HKMA. The basis of consolidation for regulatory reporting purposes is different from the basis of consolidation for accounting purposes. As specified in a notice from the HKMA in accordance with Section 3C of the Capital Rules, the Company is only required to calculate capital adequacy ratio on an unconsolidated basis. Subsidiaries not included in consolidation for regulatory reporting purposes are companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorized institutions under the Capital Rules and the Banking Ordinance. Details of subsidiaries that are not included in consolidation for regulatory reporting purposes are as follows:

Name of companies	Principal activities	Total assets as at 30 June 2017 HK\$'000	Total equity as at 30 June 2017 HK\$'000
BOSC International Company Limited	Corporate finance	871,460	765,891
BOSC International Securities Limited	Securities brokerage	10,000	9,500
BOSC International Asset Management Limited	Asset management	5,000	5,000
BOSC International Capital Limited	Corporate finance	10,000	10,000
BOSC International Investment Limited	Investment trading	1,000	1,000
BOSC International (Shenzhen) Limited	Financial advisory	34,512	34,512

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet

Table 1 : Reconciliation of Regulatory Scope Consolidated Balance Sheet to Capital Components

	Balance sheet as in published disclosure statements	Under regulatory scope of consolidation	Cross reference to Capital Disclosures
	As at 30 June 2017	As at 30 June 2017	
	HK\$'000	HK\$'000	
Assets			
Cash and balances from banks and central bank	259,381	102,055	
Placements with and advances to banks	7,280,493	7,280,493	
Derivative financial assets	17	17	
Loans and advances to customers	13,151,525	13,151,525	
<i>of which: collective impairment allowances reflected in regulatory capital</i>		40,458	(1)
Investment securities	1,699,951	1,186,361	
Investment in subsidiary	–	780,000	
Property and equipment	23,102	18,919	
Intangible assets	6,302	6,069	(2)
Deferred tax assets	9,129	9,129	(3)
<i>of which: deferred tax liabilities related to intangible assets</i>		721	(4)
Other assets	144,021	132,585	
Total assets	22,573,921	22,667,153	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 1 : Reconciliation of Regulatory Scope Consolidated Balance Sheet to Capital Components (continued)

	Balance sheet as in published disclosure statements	Under regulatory scope of consolidation	Cross reference to Capital Disclosures
	As at 30 June 2017	As at 30 June 2017	
	HK\$'000	HK\$'000	
Liabilities			
Deposits from customers	12,326,843	12,414,972	
Deposits from banks	3,080,239	3,080,239	
Derivative financial liabilities	24,276	24,276	
Certificates of deposit issued	2,648,157	2,648,157	
Current tax payable	24,505	24,505	
Deferred tax liabilities	209	–	
Other liabilities	182,716	173,418	
Total liabilities	18,286,945	18,365,567	
Equity			
Share capital	4,000,000	4,000,000	(5)
Retained profits	211,778	219,242	(6)
Other reserves	75,198	82,344	(7)
<i>of which: regulatory reserves</i>		92,810	(8)
Total equity	4,286,976	4,301,586	
Total equity and liabilities	22,573,921	22,667,153	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures

As the Company does not have any capital deduction qualified for transition arrangement under section 3 of Schedule 4H of the Banking (Capital) Rules (“**BCR**”), the Company has applied full capital deductions under BCR and the Company adopted this Capital Disclosures Template for making disclosures specified in the relevant subsections of section 24 of Banking (Disclosures) Rules.

		HK\$'000	Cross reference to Balance Sheet Reconciliation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	4,000,000	(5)
2	Retained earnings	219,242	(6)
3	Disclosed reserves	82,344	(7)
4	<i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>	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)	0	
6	CET1 capital before regulatory deductions	4,301,586	
CET1 capital: regulatory deductions			
7	Valuation adjustments	0	
8	Goodwill (net of associated deferred tax liability)	0	
9	Other intangible assets (net of associated deferred tax liability)	5,348	(2) - (4)
10	Deferred tax assets net of deferred tax liabilities	9,850	(3) + (4)
11	Cash flow hedge reserve	0	
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	
13	Gain-on-sale arising from securitization transactions	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	360,915	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock 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	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures (continued)

		HK\$'000	Cross reference to Balance Sheet Reconciliation
26	National specific regulatory adjustments applied to CET1 capital	92,810	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0	
26b	Regulatory reserve for general banking risks	92,810	(8)
26c	Securitization exposures specified in a notice given by the Monetary Authority	0	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0	
26e	Capital shortfall of regulated non-bank subsidiaries	0	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	Total regulatory deductions to CET1 capital	468,923	
29	CET1 capital	3,832,663	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	<i>Capital instruments subject to phase out arrangements from AT1 capital</i>	0	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	0	
36	AT1 capital before regulatory deductions	0	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	0	
38	Reciprocal cross-holdings in AT1 capital instruments	0	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
41	National specific regulatory adjustments applied to AT1 capital	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	Total regulatory deductions to AT1 capital	0	
44	AT1 capital	0	
45	Tier 1 capital (Tier 1 = CET1 + AT1)	3,832,663	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures (continued)

		Cross reference to Balance Sheet HK\$'000	Reconciliation
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	0	
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)	0	
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	0	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	133,268	(1) + (8)
51	Tier 2 capital before regulatory deductions	133,268	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	0	
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
56	National specific regulatory adjustments applied to Tier 2 capital	0	
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	0	
57	Total regulatory deductions to Tier 2 capital	0	
58	Tier 2 capital	133,268	
59	Total capital (Total capital = Tier 1 + Tier 2)	3,965,931	
60	Total risk weighted assets	15,609,691	
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	24.55%	
62	Tier 1 capital ratio	24.55%	
63	Total capital ratio	25.41%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	6.26%	
65	<i>of which: capital conservation buffer requirement</i>	1.250%	
66	<i>of which: bank specific countercyclical buffer requirement</i>	0.505%	
67	<i>of which: G-SIB or D-SIB buffer requirement</i>	0.00%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	17.41%	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures (continued)

			Cross reference to Balance Sheet HK\$'000 Reconciliation
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	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	419,358	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	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 basic approach and the standardized (credit risk) approach (prior to application of cap)	133,268	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	176,639	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	0	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	0	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	<i>Current cap on CET1 capital instruments subject to phase out arrangements</i>	Not applicable	
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	
82	<i>Current cap on AT1 capital instruments subject to phase out arrangements</i>	0	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	0	
84	<i>Current cap on Tier 2 capital instruments subject to phase out arrangements</i>	0	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	0	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Notes to the Table 2:

Elements 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
	Other intangible assets (net of associated deferred tax liability)	5,348	5,348
9	<p><u>Explanation</u></p> <p>As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (MSRs) 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 follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 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 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs 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>		
	Deferred tax assets net of deferred tax liabilities	9,850	9,850
10	<p><u>Explanation</u></p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability 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.</p> <p>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 and other credit exposures to connected companies) under Basel III.</p>		

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

3 COMPOSITION OF CAPITAL (CONTINUED)

(b) Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Notes to the Table 2: (continued)

Row No.	Description	Hong Kong basis	Basel III basis
	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	360,915	360,642
19	<p><u>Explanation</u></p> <p>For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.</p> <p>Therefore, the amount to be deducted as reported in row 19 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 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
<p>Remarks: The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.</p>			

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

3 COMPOSITION OF CAPITAL (CONTINUED)

(c) Main Features of Capital Instruments

1	Issuer	Bank of Shanghai (Hong Kong) Limited	Bank of Shanghai (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Hong Kong	Hong Kong
	<i>Regulatory treatment</i>		
4	Transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK\$2,200 million	HK\$1,800 million
9	Par value of instrument	HK\$10 each	RMB10 each
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	12/2/1974	3/1/2014
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	Not applicable	Not applicable
16	Subsequent call dates, if applicable	Not applicable	Not applicable
	<i>Coupons/dividends</i>		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	Not applicable	Not applicable
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

3 COMPOSITION OF CAPITAL (CONTINUED)

(c) Main Features of Capital Instruments (continued)

29	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	Not applicable	Not applicable
32	If write-down, full or partial	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable	Not applicable
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	Not applicable	Not applicable

4 LEVERAGE RATIO

(a) Leverage ratio

The Leverage Ratios were computed in accordance with the Leverage Ratio Framework issued by the HKMA.

	30 June 2017 HK\$'000	31 March 2017 HK\$'000	31 December 2016 HK\$'000
Tier 1 capital	3,832,663	4,216,778	4,121,288
Exposure measure	22,706,910	24,815,826	21,390,754
Leverage Ratio	<u>16.9%</u>	<u>17.0%</u>	<u>19.3%</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

4 LEVERAGE RATIO (CONTINUED)

(b) Components of Leverage ratio

Leverage Ratio Disclosure Template

	Item	Leverage ratio framework As at 30 June 2017 HK\$'000
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	22,707,594
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	-468,923
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	22,238,671
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	17
5	Add-on amounts for PFE associated with all derivatives transactions	10,985
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-
11	Total derivative exposures (sum of lines 4 to 10)	11,002
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	1,920,922
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	-1,463,685
19	Off-balance sheet items (sum of lines 17 and 18)	457,237
Capital and total exposures		
20	Tier 1 capital	3,832,663
21	Total exposures (sum of lines 3, 11, 16 and 19)	22,706,910
Leverage ratio		
22	Basel III leverage ratio	16.9%

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

4 LEVERAGE RATIO (CONTINUED)

(c) Reconciliation of published financial statements to leverage ratio exposure

	Item	Leverage ratio framework HK\$'000
1	Total consolidated assets as per published financial statements	22,573,921
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	93,232
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–
4	Adjustment for derivative financial instruments	10,985
5	Adjustment for securities financing transaction (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet items(i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	457,237
7	Other adjustment	(428,465)
8	Leverage ratio exposures	22,706,910

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

5 OVERVIEW OF RISK-WEIGHTED AMOUNT

The table below sets out the RWA by risk types and their corresponding capital requirements (i.e. 8% of the RWA):

		RWA		Minimum capital requirements
		30 June 2017	31 March 2017	30 June 2017
	HK\$'000			
1	Credit risk for non-securitization exposures	13,078,652	13,496,423	1,046,292
2	Of which STC approach	13,078,652	13,496,423	1,046,292
4	Counterparty credit risk	6,443	5,326	515
5a	Of which CEM	4,080	3,401	326
16	Market risk	933,488	983,250	74,679
17	Of which STM approach	933,488	983,250	74,679
19	Operational risk	542,713	491,525	43,417
20	Of which BIA approach	542,713	491,525	43,417
23	Amounts below the thresholds for deduction (subject to 250% RW)	1,048,395	307,150	83,872
25	Total	15,609,691	15,283,674	1,248,775

Total RWA increased mainly attributable to increase in RWA for credit risk, which was driven by the increase in investment in subsidiary not within consolidation scope during the quarter.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

6 CREDIT RISK

(a) Credit quality of assets

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
As at 30 June 2017		HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	275,022	20,520,232	177,051	20,618,203
2	Debt securities	–	1,195,370	–	1,195,370
3	Off-balance sheet exposures	–	867,990	–	867,990
4	Total	275,022	22,583,592	177,051	22,681,563

A default is considered to have occurred with regard to a particular borrower when either or both of the following events have taken place:

- a) Subjective default: Borrower is considered to be unlikely to pay its credit obligations in full, without taking action such as realising security (if held).
- b) Technical default: Borrower is more than 90 days past due on any credit obligation.

Loans included balances with banks and central bank, placements with and advances to banks, loans and advances to customers and related interest receivables.

Debt securities included non-trading investment securities and related interest receivables.

Off-balance sheet exposures included direct credit substitutes, transaction-related contingencies, trade-related contingencies and irrecoverable loans commitment.

(b) Changes in Stock of Defaulted Loans and Debt Securities

		(a)
As at 30 June 2017		HK\$'000
1	Default loans and debt securities at end of the previous reporting period	–
2	Loans and debt securities that have defaulted since the last reporting period	275,022
3	Returned to non-defaulted status	–
4	Amounts written off	–
5	Other changes	–
6	Defaulted loans and debt securities at end of the current reporting period	275,022

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

6 CREDIT RISK (CONTINUED)

(c) Overview of Recognized Credit Risk Mitigation

		(a)	(b)	(c)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
As at 30 June 2017		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	15,350,319	5,267,884	2,229,145	3,038,739	–
2	Debt securities	1,195,370	–	–	–	–
3	Total	16,545,689	5,267,884	2,229,145	3,038,739	–
4	Of which defaulted	138,429	–	–	–	–

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

6 CREDIT RISK (CONTINUED)

(d) Credit Risk Exposures and Effects of Recognized Credit Risk Mitigation – STC approach

Exposure classes		As at 30 June 2017					
		(a)	(b)	(c)	(d)	(e)	(f)
		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
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%
1	Sovereign exposures	103,329	–	103,329	–	–	0%
2	PSE exposures	–	–	–	–	–	0%
2a	Of which: domestic PSEs	100,137	–	100,137	–	20,027	20%
2b	Of which: foreign PSEs	22,825	–	22,825	–	11,413	50%
3	Multilateral development bank exposures	–	–	–	–	–	0%
4	Bank exposures	7,765,523	1,113,753	10,804,702	11,002	4,084,300	38%
5	Securities firm exposures	100,007	100,000	100,007	–	50,004	50%
6	Corporate exposures	13,593,773	1,820,922	8,313,928	211,815	8,699,142	102%
7	CIS exposures	–	–	–	–	–	0%
8	Cash items	–	–	–	–	–	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	0%
10	Regulatory retail exposures	26,648	–	26,648	–	19,986	75%
11	Residential mortgage loans	–	–	–	–	–	0%
12	Other exposures which are not past due exposures	619,236	–	617,218	–	1,246,255	202%
13	Past due exposures	–	–	–	–	–	0%
14	Significant exposures to commercial entities	–	–	–	–	–	0%
15	Total	22,331,478	3,034,675	20,088,794	222,817	14,131,127	70%

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

6 CREDIT RISK (CONTINUED)

(e) Credit Risk Exposures by Asset Classes and by Risk Weights – STC approach

Risk Weight Exposure class		As at 30 June 2017										Total credit risk exposures amount (post CCF and post CRM) HK\$'000
		0% HK\$'000	10% HK\$'000	20% HK\$'000	35% HK\$'000	50% HK\$'000	75% HK\$'000	100% HK\$'000	150% HK\$'000	250% HK\$'000	Others HK\$'000	
1	Sovereign exposures	103,329	-	-	-	-	-	-	-	-	-	103,329
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	100,137	-	-	-	-	-	-	-	100,137
2b	Of which: foreign PSEs	-	-	22,825	-	-	-	-	-	-	-	22,825
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	4,411,843	-	6,403,861	-	-	-	-	-	10,815,704
5	Securities firm exposures	-	-	-	-	100,007	-	-	-	-	-	100,007
6	Corporate exposures	-	-	-	-	605,241	-	6,968,464	952,038	-	-	8,525,743
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	26,648	-	-	-	-	26,648
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	197,860	-	419,358	-	617,218
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	103,329	-	4,534,805	-	7,109,109	26,648	7,166,324	952,038	419,358	-	20,311,611

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

7 COUNTERPARTY CREDIT RISK (“CCR”)

(a) Analysis of Counterparty Default Risk Exposures (Other than those to CCPs) by Approaches

		As at 30 June 2017					
		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC) HK\$'000	PFE HK\$'000	Effective EPE HK\$'000	Alpha (α) used for computing default risk exposure HK\$'000	Default risk exposure after CRM HK\$'000	RWA HK\$'000
1	CEM	17	10,985		N/A	11,002	4,080
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	Total						4,080

(b) CVA Capital Charge

		As at 30 June 2017	
		(a)	(b)
		EAD post CRM HK\$'000	RWA HK\$'000
	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	11,002	2,363
4	Total	11,002	2,363

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

8 MARKET RISK UNDER STANDARDIZED APPROACH

		As at 30 June 2017
		(a)
		RWA HK\$'000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	–
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	933,488
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	–
7	Other approach	–
8	Securitization exposures	–
9	Total	933,488

9 INTERNATIONAL CLAIMS

International claims are exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate international claims are shown as follows:

In HK\$'000	Non-bank private sector				Total
	Banks	Official sector	Non-bank financial institution	Non-financial private sector	
As at 30 June 2017:					
Developed countries	1,734,515	–	184,723	–	1,919,238
Offshore centers	478,569	103,265	2,231,092	3,312,246	6,125,172
of which Hong Kong SAR	361,714	103,265	2,231,092	3,185,843	5,881,914
Developing Asia and Pacific	5,558,082	–	427,827	8,800,610	14,786,519
of which China	5,558,082	–	427,827	8,574,656	14,560,565
	<u>7,771,166</u>	<u>103,265</u>	<u>2,843,642</u>	<u>12,112,856</u>	<u>22,830,929</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

9 INTERNATIONAL CLAIMS (CONTINUED)

In HK\$'000

			Non-bank private sector		Total
			Non-bank financial institution	Non-financial private sector	
	Banks	Official sector			
As at 31 December 2016:					
Developed countries	1,508,705	–	67,001	32	1,575,738
Offshore centers	1,400,160	129,739	1,780,193	3,605,495	6,915,587
of which Hong Kong SAR	1,270,736	129,739	1,780,193	3,485,153	6,665,821
Developing Asia and Pacific	4,353,152	–	660,143	7,595,038	12,608,333
of which China	4,352,736	–	660,143	7,370,624	12,383,503
	<u>7,262,017</u>	<u>129,739</u>	<u>2,507,337</u>	<u>11,200,565</u>	<u>21,099,658</u>

The geographical analysis has taken into account the transfer of risk.

10 FURTHER ANALYSIS OF LOANS AND ADVANCES TO CUSTOMERS

Individually impaired loans and advances, overdue loans and advances, individually assessed and collectively assessed loan impairment allowances, in respect of industry sectors representing not less than 10% of gross loans and advances to customers are analysed as follows:

	30 June 2017			
	Individually impaired loans and advances HK\$'000	Overdue loans and advances HK\$'000	Individually assessed loan impairment allowances HK\$'000	Collectively assessed loan impairment allowances HK\$'000
Financial concerns	–	–	–	(10,127)
Wholesale and retail trade	–	–	–	(3,610)
Property development	–	–	–	(6,970)
Manufacturing	–	–	–	(6,209)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(26,916)</u>
	31 December 2016			
	Individually impaired loans and advances HK\$'000	Overdue loans and advances HK\$'000	Individually assessed loan impairment allowances HK\$'000	Collectively assessed loan impairment allowances HK\$'000
Financial concerns	–	–	–	(8,787)
Wholesale and retail trade	–	–	–	(4,186)
Property development	–	–	–	(5,771)
Manufacturing	–	–	–	(7,400)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(18,044)</u>

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017**

11 NON-BANK MAINLAND EXPOSURES

As at 30 June 2017	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	2,060,384	–	2,060,384
2. Local governments, local government-owned entities and their subsidiaries and JVs	285,572	–	285,572
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	4,800,585	113,948	4,914,533
4. Other entities of central government not reported in item 1 above	547,237	–	547,237
5. Other entities of local governments not reported in item 2 above	149,125	–	149,125
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	2,936,495	651,511	3,588,006
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,864,153	102,531	1,966,684
	<u>12,643,551</u>	<u>867,990</u>	<u>13,511,541</u>
Total assets after provision	<u>22,672,798</u>		
On-balance sheet exposures as percentage of total assets	<u>55.77%</u>		

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

11 NON-BANK MAINLAND EXPOSURES (CONTINUED)

As at 31 December 2016	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	1,933,186	–	1,933,186
2. Local governments, local government-owned entities and their subsidiaries and JVs	401,532	–	401,532
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	3,140,738	21,713	3,162,451
4. Other entities of central government not reported in item 1 above	278,358	310,188	588,546
5. Other entities of local governments not reported in item 2 above	201,937	–	201,937
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	3,296,876	279,932	3,576,808
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	3,105,163	–	3,105,163
	<u>12,357,790</u>	<u>611,833</u>	<u>12,969,623</u>
Total assets after provision	<u>21,079,131</u>		
On-balance sheet exposures as percentage of total assets	<u>58.63%</u>		

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2017

12 CURRENCY CONCENTRATIONS

The Group (including the Company and its subsidiaries) had the following net foreign currency exposures which exceeded 10% of the net foreign currency exposure in all currencies:

	USD \$'000 HK\$ equivalent	RMB \$'000 HK\$ equivalent	Other foreign currencies \$'000 HK\$ equivalent	Total foreign currencies \$'000 HK\$ equivalent
As at 30 June 2017				
Spot assets	14,892,841	1,666,275	1,257,566	17,816,682
Spot liabilities	(13,899,130)	(2,933,586)	(531,412)	(17,364,128)
Forward purchases	726,614	356,717	–	1,083,331
Forward sales	(356,385)	–	(745,441)	(1,101,826)
Net long/(short) non-structural position	<u>1,363,940</u>	<u>(910,594)</u>	<u>(19,287)</u>	<u>434,059</u>
As at 31 December 2016				
Hong Kong dollar equivalents				
Spot assets	12,359,877	1,412,929	533,707	14,306,513
Spot liabilities	(10,795,118)	(3,503,265)	(442,309)	(14,740,692)
Forward purchases	357,129	1,090,131	–	1,447,260
Forward sales	(1,114,806)	–	(87,992)	(1,202,798)
Net long/(short) non-structural position	<u>807,082</u>	<u>(1,000,205)</u>	<u>3,406</u>	<u>(189,717)</u>

As at 30 June 2017 and 31 December 2016, there was no net structural position.

13 LIQUIDITY DISCLOSURES

The Company has complied with the LMR requirement in accordance with Banking (Liquidity) Rules which set a minimum requirement of 25%. The average liquidity ratio for the six-month period represented the simple average of each calendar month's average LMR, which was computed on a "single company" basis as required by the HKMA for regulatory reporting purposes.

	30 June 2017 %	30 June 2016 %
Average liquidity ratio for the six months period	<u>56</u>	<u>44</u>

Approach to Liquidity Risk Management

Objectives, framework and process are in place for risk governance, measurement and monitoring of the Group's liquidity risk. Details of the Group's liquidity risk management approach are delineated in the 2016 annual financial statements.