



BANK OF SHANGHAI (HONG KONG) LIMITED

2018 INTERIM REGULATORY DISCLOSURES STATEMENTS

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2018**

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BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS
FOR THE FIRST SIX MONTHS ENDED 30 JUNE 2018

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 KEY PRUDENTIAL RATIOS

The following table provides an overview of the Bank’s key prudential ratios.

In HK\$’000		As at 30 June 2018	As at 31 March 2018	As at 31 December 2017	As at 30 September 2017	As at 30 June 2017
	Regulatory Capital (amount)					
1	Common Equity Tier 1 (CET1)	3,989,052	4,012,509	3,934,044	3,900,237	3,832,663
2	Tier 1	3,989,052	4,012,509	3,934,044	3,900,237	3,832,663
3	Total Capital	4,149,736	4,178,967	4,087,329	4,024,904	3,965,931
	RWA (amount)					
4	Total RWA	16,471,672	17,585,483	18,298,193	15,923,931	15,609,691
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	24.2	22.8	21.5	24.5	24.6
6	Tier 1 ratio (%)	24.2	22.8	21.5	24.5	24.6
7	Total Capital ratio (%)	25.2	23.8	22.3	25.3	25.4
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.875	1.875	1.250	1.250	1.250
9	Countercyclical capital buffer requirement (%)	0.765	0.732	0.534	0.459	0.505
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	–	–	–	–	–
11	Total AI-specific CET1 buffer requirements (%)	2.640	2.607	1.784	1.709	1.755
12	CET1 available after meeting the AI’s minimum capital requirements (%)	17.2	15.8	14.3	17.3	17.4

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2 KEY PRUDENTIAL RATIOS (CONTINUED)

In HK\$'000		As at 30 June 2018	As at 31 March 2018	As at 31 December 2017	As at 30 September 2017	As at 30 June 2017
	Basel III Leverage ratio					
13	Total Leverage ratio (LR) exposure measure	21,319,696	24,349,456	24,974,850	24,305,928	22,706,910
14	LR (%)	18.7	16.5	15.8	16.1	16.9
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	NA	NA	NA	NA	NA
16	Total net cash outflows	NA	NA	NA	NA	NA
17	LCR (%)	NA	NA	NA	NA	NA
	Applicable to category 2 institution only:					
17a	LMR (%)	55.6	55.1	46.4	47.3	57.6
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required Stable funding	NA	NA	NA	NA	NA
20	NSFR (%)	NA	NA	NA	NA	NA
	Applicable to category 2A institution only:					
20a	CFR (%)	105.8	105.5	NA	NA	NA

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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 2018 HK\$'000	Total equity as at 30 June 2018 HK\$'000
BOSC International Company Limited	Corporate finance	875,062	810,305
BOSC International Securities Limited	Securities brokerage	9,998	9,984
BOSC International Asset Management Limited	Asset management	5,000	4,984
BOSC International Capital Limited	Corporate finance	10,000	9,984
BOSC International Investment Limited	Investment trading	3,953,991	(48,761)
BOSC International (Shenzhen) Company Limited	Corporate advisory	430,799	245,319
BOSC International Advisory (Shenzhen) Company Limited	Corporate advisory	183,610	22,897
BOSC International Equity Investment Fund Management (Shenzhen) Company Limited	Fund management	11,217	8,487
BOSC International Investment (Shenzhen) Company Limited	Investment trading	92	(27)
BOSC International (BVI) Limited	Special purpose entity for financing	3,932,081	2,702
BOSC International Investment (BVI) Limited	Special purpose entity for business projects	314	1

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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 2018	As at 30 June 2018	
	HK\$'000	HK\$'000	
Assets			
Cash and balances from banks and central bank	353,490	85,048	
Placements with and advances to banks	1,358,522	1,358,518	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		11	(1)
Trading assets	4,869	–	
Derivative financial assets	53,379	53,379	
Loans and advances to customers	15,282,488	15,282,488	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		107,428	(2)
Investment securities	7,984,167	3,571,449	
Investment in associate	1,184	–	
Investment in subsidiary	–	780,000	
Property and equipment	18,541	14,530	
Intangible assets	5,098	4,922	(3)
Deferred tax assets	41,141	25,719	(4)
<i>of which: deferred tax liabilities related to intangible assets</i>		663	(5)
Other assets	412,377	178,425	
Total assets	25,515,256	21,354,478	

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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 2018	As at 30 June 2018	
	HK\$'000	HK\$'000	
Liabilities			
Deposits from customers	9,121,697	9,176,683	
Deposits from banks	3,281,056	3,281,056	
Trading liabilities	167	–	
Derivative financial liabilities	130,974	130,974	
Certificates of deposit and other debt securities issued	8,053,069	4,149,860	
Current tax payable	37,216	18,664	
Other liabilities	477,503	174,701	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		4,114	(6)
Total liabilities	21,101,682	16,931,938	
Equity			
Share capital	4,000,000	4,000,000	(7)
Retained profits	485,681	412,594	(8)
Other reserves	(72,107)	9,946	(9)
<i>of which: regulatory reserves</i>		49,131	(10)
Total equity	4,413,574	4,422,540	
Total equity and liabilities	25,515,256	21,354,478	

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3 COMPOSITION OF CAPITAL (CONTINUED)

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

Table 2 : Capital Disclosures

		(a)	(b)
		HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	4,000,000	(7)
2	Retained earnings	412,594	(8)
3	Disclosed reserves	9,946	(9)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	–	
6	CET1 capital before regulatory adjustments	4,422,540	
CET1 capital: regulatory deductions			
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	4,259	(3)-(5)
10	Deferred tax assets (net of associated deferred tax liabilities)	26,382	(4)+(5)
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
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)	353,716	

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3 COMPOSITION OF CAPITAL (CONTINUED)

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

Table 2 : Capital Disclosures (continued)

		(a)	(b)
		HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	49,131	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b	Regulatory reserve for general banking risks	49,131	(10)
26c	Securitization exposures specified in a notice given by the MA	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	Total regulatory deductions to CET1 capital	433,488	
29	CET1 capital	3,989,052	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
33	Capital instruments subject to phase-out arrangements from AT1 capital	–	

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3 COMPOSITION OF CAPITAL (CONTINUED)

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

Table 2 : Capital Disclosures (continued)

	(a)	(b)
	HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
34	–	
35	–	
36	–	
AT1 capital: regulatory deductions		
37	–	
38	–	
39	–	
40	–	
41	–	
42	–	
43	–	
44	–	
45	3,989,052	
Tier 2 capital: instruments and provisions		
46	–	
47	–	
48	–	
49	–	
50	160,684	(1)+(2)+(6)+(10)
51	160,684	

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3 COMPOSITION OF CAPITAL (CONTINUED)

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

Table 2 : Capital Disclosures (continued)

		(a)	(b)
		HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments	–	
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)	–	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
56	National specific regulatory adjustments applied to Tier 2 capital	–	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	–	
57	Total regulatory adjustments to Tier 2 capital	–	
58	Tier 2 capital (T2)	160,684	
59	Total regulatory capital (TC = T1 + T2)	4,149,736	
60	Total RWA	16,471,672	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	24.2%	
62	Tier 1 capital ratio	24.2%	
63	Total capital ratio	25.2%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	2.640%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	0.765%	
67	of which: higher loss absorbency requirement	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	17.2%	

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3 COMPOSITION OF CAPITAL (CONTINUED)

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

Table 2 : Capital Disclosures (continued)

		(a)	(b)
		HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	434,276	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	160,684	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	184,609	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	–	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	Not applicable	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	Not applicable
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	–	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	–	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	–	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	–	

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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
9	Other intangible assets (net of associated deferred tax liabilities)	4,259	4,259
	<p>Explanation</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>		
10	Deferred tax assets (net of associated deferred tax liabilities)	26,382	–
	<p>Explanation</p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 10 (i.e. the amount reported under the “Hong Kong basis”) adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		

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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)	353,716	345,724
19	<p>Explanation</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 MA 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. 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>		

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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

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3 COMPOSITION OF CAPITAL (CONTINUED)

(c) Main Features of Capital Instruments (continued)

27	If convertible, mandatory or optional conversion	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable
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) Components of Leverage ratio

Leverage Ratio Disclosure Template

	Item	As at 30 June 2018 HK\$'000	As at 31 March 2018 HK\$'000
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	21,674,725	24,711,639
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	-433,488	-450,050
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	21,241,237	24,261,589
Exposures arising from derivative exposures			
4	Replacement cost associated with all derivatives transactions	53,379	30,083
5	Add-on amounts for PFE associated with all derivatives transactions	58,464	26,920
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	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-

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4 LEVERAGE RATIO (CONTINUED)

(a) Components of Leverage ratio (continued)

	Item	As at 30 June 2018 HK\$'000	As at 31 March 2018 HK\$'000
11	Total exposures arising from derivative exposures	111,843	57,003
Exposures arising from SFTs			
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	–	–
14	CCR exposure for SFT assets	–	–
15	Agent transaction exposures	–	–
16	Total exposures arising from SFTs	–	–
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	1,837,058	1,869,736
18	Less: Adjustments for conversion to credit equivalent amounts	-1,496,816	-1,533,288
19	Off-balance sheet items	340,242	336,448
Capital and total exposures			
20	Tier 1 capital	3,989,052	4,012,509
20a	Total exposures before adjustments for specific and collective provisions	21,693,322	24,655,040
20b	Adjustments for specific and collective provisions	-373,626	-305,584
21	Total exposures after adjustments for specific and collective provisions	21,319,696	24,349,456
Leverage ratio			
22	Leverage ratio	18.7%	16.5%

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

	Item	Leverage ratio framework As at 30 June 2018 HK\$'000
1	Total consolidated assets as per published financial statements	25,515,256
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-4,160,778
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
4	Adjustment for derivative contracts	58,464
5	Adjustment for SFTs (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet ("OBS") items(i.e. conversion to credit equivalent amounts of OBS exposures)	340,242
7	Other adjustments	-433,488
8	Leverage ratio exposure measure	21,319,696

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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):

		(a)	(b)	(c)
		RWA		Minimum capital requirements
HK\$'000		As at 30 June 2018	As at 31 March 2018	As at 30 June 2018
1	Credit risk for non-securitization exposures	13,647,156	14,823,611	1,091,772
2	Of which STC approach	13,647,156	14,823,611	1,091,772
2a	Of which BSC approach	–	–	–
3	Of which foundation IRB approach	–	–	–
4	Of which supervisory slotting criteria approach	–	–	–
5	Of which advanced IRB approach	–	–	–
6	Counterparty default risk and default fund contributions	35,838	24,472	2,867
7	Of which SA-CCR*	–	–	–
7a	Of which CEM	35,838	24,472	2,867
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	45,375	30,400	3,630
11	Equity positions in banking book under the simple risk-weight method and internal models method	–	–	–
12	Collective investment scheme (“CIS”) exposures – LTA*	NA	NA	NA
13	CIS exposures – MBA*	NA	NA	NA
14	CIS exposures – FBA*	NA	NA	NA
14a	CIS exposures – combination of approaches*	NA	NA	NA
15	Settlement risk	–	–	–
16	Securitization exposures in banking book	–	–	–
17	Of which SEC-IRBA	–	–	–
18	Of which SEC-ERBA	–	–	–
19	Of which SEC-SA	–	–	–
19a	Of which SEC-FBA	–	–	–
20	Market risk	965,238	921,650	77,219
21	Of which STM approach	965,238	921,650	77,219
22	Of which IMM approach	–	–	–

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5 OVERVIEW OF RISK-WEIGHTED AMOUNT (CONTINUED)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
HK\$'000		As at 30 June 2018	As at 31 March 2018	As at 30 June 2018
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	NA	NA	NA
24	Operational risk	692,375	695,250	55,390
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,085,690	1,090,100	86,855
26	Capital floor adjustment	–	–	–
26a	Deduction to RWA			
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	–	–	–
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	–	–	–
27	Total	16,471,672	17,585,483	1,317,733

Total RWA decreased mainly attributable to decreased in RWA for credit risk, which was driven by the decrease in bank placements and decrease of corporate exposures that are exposed to higher credit risk during the quarter.

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6 CREDIT RISK

(a) Credit quality of assets

As at 30 June 2018		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	266,187	16,901,735	373,626	16,794,296
2	Debt securities	–	3,589,113	–	3,589,113
3	Off-balance sheet exposures	–	256,294	310	255,984
4	Total	266,187	20,747,142	373,936	20,639,393

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

As at 30 June 2018		(a)
		HK\$'000
1	Default loans and debt securities at end of the previous reporting period	275,022
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 (Note a)	(8,835)
6	Defaulted loans and debt securities at end of the current reporting period	266,187

Note a : The amount includes repayment from customers and foreign exchange movements.

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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 2018		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	10,849,831	5,944,465	666,356	5,278,109	–
2	Debt securities	3,589,113	–	–	–	–
3	Total	14,438,944	5,944,465	666,356	5,278,109	–
4	Of which defaulted	–	–	–	–	–

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

		As at 30 June 2018					
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
Exposure classes		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	1,382,268	–	1,382,268	–	–	0%
2	PSE exposures	–	–	–	–	–	0%
2a	Of which: domestic PSEs	–	–	–	–	–	20%
2b	Of which: foreign PSEs	23,738	–	23,738	–	11,869	50%
3	Multilateral development bank exposures	–	–	–	–	–	0%
4	Bank exposures	2,203,397	5,934,892	7,483,865	109,106	3,342,368	44%
5	Securities firm exposures	100,025	–	100,025	–	50,012	50%
6	Corporate exposures	16,364,702	2,384,508	10,017,664	66,114	9,767,825	97%
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	19,420	–	19,420	–	14,565	75%
11	Residential mortgage loans	–	–	–	–	–	0%
12	Other exposures which are not past due exposures	930,630	–	930,630	–	1,582,044	170%
13	Past due exposures	–	–	–	–	–	0%
14	Significant exposures to commercial entities	–	–	–	–	–	0%
15	Total	21,024,180	8,319,400	19,957,610	175,220	14,768,683	73%

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6 CREDIT RISK (CONTINUED)

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

		As at 30 June 2018										
Risk Weight	Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM) HK\$'000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
1	Sovereign exposures	1,382,268	-	-	-	-	-	-	-	-	-	1,382,268
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	23,738	-	-	-	-	-	23,738
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	1,513,725	-	6,079,246	-	-	-	-	-	7,592,971
5	Securities firm exposures	-	-	-	-	100,025	-	-	-	-	-	100,025
6	Corporate exposures	-	-	-	-	1,075,015	-	8,565,656	443,107	-	-	10,083,778
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	-	-	-	-	-	19,420	-	-	-	-	19,420
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	496,354	-	434,276	-	930,630
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	1,382,268	-	1,513,725	-	7,278,024	19,420	9,062,010	443,107	434,276	-	20,132,830

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7 COUNTERPARTY CREDIT RISK (“CCR”)

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

		As at 30 June 2018					
		(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	53,379	58,464		N/A	111,843	35,838
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	Total						35,838

(b) CVA Capital Charge

		As at 30 June 2018	
		(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	111,843	45,375
4	Total	111,843	45,375

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8 MARKET RISK UNDER STANDARDIZED APPROACH

		As at 30 June 2018
		(a)
		RWA HK\$'000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	8,613
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	956,625
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	–
7	Other approach	–
8	Securitization exposures	–
9	Total	965,238

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				
	Banks	Official sector	Non-bank financial institution	Non-financial private sector	Total
As at 30 June 2018:					
Developed countries	1,084,789	–	101,820	43,029	1,229,638
Offshore centers	443,884	1,359,735	2,475,365	2,415,176	6,694,160
of which Hong Kong SAR	328,765	1,359,735	2,475,365	2,415,176	6,579,041
Developing Asia and Pacific	874,642	–	2,626,520	10,288,615	13,789,777
of which China	874,642	–	2,626,520	10,061,142	13,562,304
	2,403,315	1,359,735	5,203,705	12,746,820	21,713,575
	2,403,315	1,359,735	5,203,705	12,746,820	21,713,575

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9 INTERNATIONAL CLAIMS (CONTINUED)

In HK\$'000

			Non-bank private sector		Total
	Banks	Official sector	Non-bank financial institution	Non-financial private sector	
As at 31 December 2017:					
Developed countries	906,828	–	188,284	73,071	1,168,183
Offshore centers	412,052	298,379	2,555,833	2,879,513	6,145,777
of which Hong Kong SAR	296,153	298,379	2,555,833	2,879,513	6,029,878
Developing Asia and Pacific	6,406,037	–	736,718	10,742,684	17,885,439
of which China	6,406,037	–	736,718	10,516,277	17,659,032
	<u>7,724,917</u>	<u>298,379</u>	<u>3,480,835</u>	<u>13,695,268</u>	<u>25,199,399</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 2018			
	Impaired loans and advances HK\$'000	Overdue loans and advances HK\$'000	Specific provisions HK\$'000	Collective provisions HK\$'000
Financial concerns	–	–	–	(44,445)
Property development	–	–	–	(13,921)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(58,366)</u>
	31 December 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	–	–	–	(13,175)
Property development	–	–	–	(8,366)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(21,541)</u>

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11 MAINLAND ACTIVITIES

As at 30 June 2018	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)	1,756,125	–	1,756,125
2. Local governments, local government-owned entities and their subsidiaries and JVs	989,629	–	989,629
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	5,422,815	52,265	5,475,080
4. Other entities of central government not reported in item 1 above	1,251,166	–	1,251,166
5. Other entities of local governments not reported in item 2 above	335,465	–	335,465
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	3,285,284	204,029	3,489,313
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	<u>2,408,796</u>	<u>–</u>	<u>2,408,796</u>
	<u>15,449,280</u>	<u>256,294</u>	<u>15,705,574</u>
Total assets after provision	<u>21,361,113</u>		
On-balance sheet exposures as percentage of total assets	<u>72.32%</u>		

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11 MAINLAND ACTIVITIES (CONTINUED)

As at 31 December 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)	2,192,135	117,231	2,309,366
2. Local governments, local government-owned entities and their subsidiaries and JVs	562,229	–	562,229
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	5,168,755	92,384	5,261,139
4. Other entities of central government not reported in item 1 above	921,982	203,200	1,125,182
5. Other entities of local governments not reported in item 2 above	443,400	–	443,400
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	3,299,984	266,600	3,566,584
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	2,109,161	1,361	2,110,522
	<u>14,697,646</u>	<u>680,776</u>	<u>15,378,422</u>
Total assets after provision	<u>24,969,602</u>		
On-balance sheet exposures as percentage of total assets	<u>58.86%</u>		

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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 2018				
Spot assets	18,120,399	828,479	1,294,048	20,242,926
Spot liabilities	(14,904,936)	(4,702,777)	(13,580)	(19,621,293)
Forward purchases	1,469,281	3,381,258	–	4,850,539
Forward sales	(3,886,665)	(225,007)	(1,229,432)	(5,341,104)
Net long/(short) non-structural position	<u>798,079</u>	<u>(718,047)</u>	<u>51,036</u>	<u>131,068</u>
As at 31 December 2017				
Hong Kong dollar equivalents				
Spot assets	19,119,477	1,500,492	1,386,128	22,006,097
Spot liabilities	(18,129,828)	(2,729,335)	(543,509)	(21,402,672)
Forward purchases	836,130	407,575	–	1,243,705
Forward sales	(399,632)	–	(850,159)	(1,249,791)
Net long/(short) non-structural position	<u>1,426,147</u>	<u>(821,268)</u>	<u>(7,540)</u>	<u>597,339</u>

As at 30 June 2018 and 31 December 2017, there was no net structural position.

13 COUNTERCYCLICAL CAPITAL BUFFER

Geographical Distribution of Credit Exposures used in Countercyclical Capital Buffer (“CCyB”)

The following table provides an overview of the geographical distribution of the RWA of private sector credit exposures relevant for the calculation of the Bank’s CCyB ratio.

In HK\$'000		As at 30 June 2018			
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio	AI-specific CCyB ratio (%)	CCyB amount
1	Hong Kong SAR	1.875	4,583,494		
2	United Kingdom	0.5	47,255		
	Sum		4,630,749		
	Total		11,267,909	0.765	125,975