



BANK OF SHANGHAI (HONG KONG) LIMITED

**REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

	Pages
Introduction	1
Key Prudential Ratios	1
Composition of Capital	3
Leverage Ratio	16
Risk Management Approach	19
Overview of Risk-weighted Amount	22
Credit Risk	23
Counterparty Credit Risk	33
Market Risk Under Standardized Approach	36
Operational Risk	37
Interest Rate Risk In Banking Book	40
International Claims	41
Segmental Information	42
Mainland Activities	43
Currency Concentration	45
Countercyclical Capital Buffer	45
Further Analysis of Loans and Advances to Customers	46
Overdue and Rescheduled Assets	47

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

The information in this document is not audited and does not constitute statutory accounts.

2 KEY PRUDENTIAL RATIOS

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

In HK\$’000		As at 31 December 2021	As at 30 September 2021	As at 30 June 2021	As at 31 March 2021	As at 31 December 2020
	Regulatory Capital (amount)					
1	Common Equity Tier 1 (CET1)	4,502,565	4,605,111	4,555,639	4,587,428	4,465,317
2	Tier 1	4,502,565	4,605,111	4,555,639	4,587,428	4,465,317
3	Total Capital	4,714,761	4,872,279	4,782,964	4,790,542	4,711,552
	RWA (amount)					
4	Total RWA	24,353,014	24,695,024	26,025,484	25,307,458	25,143,135
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	18.5	18.6	17.5	18.1	17.8
6	Tier 1 ratio (%)	18.5	18.6	17.5	18.1	17.8
7	Total Capital ratio (%)	19.4	19.7	18.4	18.9	18.7
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500	2.500	2.500	2.500	2.500
9	Countercyclical capital buffer requirement (%)	0.478	0.481	0.451	0.433	0.472
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	–	–	–	–	–
11	Total AI-specific CET1 buffer requirements (%)	2.978	2.981	2.951	2.933	2.972
12	CET1 available after meeting the AI’s minimum capital requirements (%)	11.4	11.7	10.4	10.9	10.7

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

2 KEY PRUDENTIAL RATIOS (CONTINUED)

In HK\$'000		As at 31 December 2021	As at 30 September 2021	As at 30 June 2021	As at 31 March 2021	As at 31 December 2020
	Basel III Leverage ratio					
13	Total Leverage ratio (LR) exposure measure	31,105,698	31,093,077	30,979,169	30,842,619	29,162,128
14	LR (%)	14.5	14.8	14.7	14.9	15.3
	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 (%)	107.8	109.7	74.1	66.1	77.2
	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 (%)	112.2	114.9	128.2	120.6	116.6

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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 31 December 2021 HK\$'000	Total equity as at 31 December 2021 HK\$'000
BOSC International Company Limited	Investment banking	920,771	866,381
BOSC International Securities Limited	Dormant	9,995	9,756
BOSC International Asset Management Limited	Dormant	5,000	4,782
BOSC International Financial Products Limited (formerly "BOSC International Capital Limited")	Financial product investment business	2,780,441	41,640
BOSC International Investment Limited	Investment trading	4,057,348	(327,354)
BOSC International (Shenzhen) Company Limited	Corporate advisory	950,347	410,104
BOSC International Advisory (Shenzhen) Company Limited	Corporate advisory	143,505	88,659
BOSC International Equity Investment Fund Management (Shenzhen) Company Limited	Fund management	8,815	(4,364)
BOSC International Investment (Shenzhen) Company Limited	Investment trading	20,403	17,231
BOSCI (BVI) Limited	Special purpose entity for financing	3,898,953	538

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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 31 December 2021	As at 31 December 2021	
	HK\$'000	HK\$'000	
Assets			
Cash and balances from banks and central bank	1,900,471	1,309,129	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		74	(1)
Placements with and advances to banks	1,858,962	1,858,962	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		655	(2)
Financial assets at fair value through profit and loss	1,332,026	424,626	
Derivative financial assets	55,448	55,448	
Loans and advances to customers	18,546,214	18,546,214	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		198,458	(3)
Investment securities	11,096,413	7,602,626	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		3,090	(4)
Investment in associate	4,659	–	
Investment in subsidiary	–	780,000	
Property and equipments	76,454	65,378	
Intangible assets	3,999	3,646	(5)
Current tax recoverable	34,191	34,191	
Deferred tax assets	202,675	39,950	(6)
<i>of which: deferred tax liabilities related to intangible assets</i>		544	(7)
Other assets	220,254	111,659	
Total assets	35,331,766	30,831,829	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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 31 December 2021	As at 31 December 2021	
	HK\$'000	HK\$'000	
Liabilities			
Deposits from customers	14,029,315	14,032,952	
Deposits from banks	4,255,218	4,255,218	
Derivative financial liabilities	22,204	22,204	
Certificates of deposit and other debt securities issued	11,362,244	7,479,265	
Current tax payable	81,020	–	
Deferred tax liabilities	27	–	
Lease liabilities	72,556	61,562	
Short-term borrowings	306,176	–	
Other liabilities	358,855	125,114	
<i>of which: collective provision eligible for inclusion in Tier 2 capital</i>		9,919	(8)
Total liabilities	30,487,615	25,976,315	
Equity			
Share capital	4,000,000	4,000,000	
<i>of which: amount eligible for CET1</i>	4,000,000	4,000,000	(9)
<i>of which: amount eligible for AT1</i>	–	–	
Retained profits	1,079,847	838,533	(10)
Other reserves	(235,696)	16,981	(11)
of which: regulatory reserves		–	(12)
Total equity	4,844,151	4,855,514	
Total equity and liabilities	35,331,766	30,831,829	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

			Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
			HK\$'000
CET1 capital: Instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	4,000,000	(9)
2	Retained earnings	838,533	(10)
3	Disclosed reserves	16,981	(11)
4	<i>Directly issued capital subject to phase out from CET1 capital (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	4,855,514	
CET1 capital: regulatory deductions			
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liability)	–	
9	Other intangible assets (net of associated deferred tax liability)	3,102	(5)-(7)
10	Deferred tax assets net of deferred tax liabilities	40,494	(6)+(7)
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	309,353	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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	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	–	
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	–	(12)
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	352,949	
29	CET1 capital	4,502,565	
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	<i>Capital instruments subject to phase out arrangements from AT1 capital</i>	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	–	
36	AT1 capital before regulatory deductions	–	
AT1 Capital: Regulatory deductions			
37	Investments in own AT1 capital instruments	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
41	National specific regulatory adjustments applied to AT1 capital	–	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–	
43	Total regulatory deductions to AT1 capital	–	
44	AT1 capital	–	
45	Tier 1 capital (Tier 1 =CET1+AT1)	4,502,565	
Tier 2 capital: Instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	–	
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	–	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	–	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	212,196	(1)+(2)+(3)+ (4)+(8)
51	Tier 2 capital before regulatory deductions	212,196	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	–	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	–	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only)	–	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
56	National specific regulatory adjustments applied to Tier 2 capital	–	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	–	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	–	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
57	Total regulatory deductions to Tier 2 capital	–	
58	Tier 2 capital	212,196	
59	Total capital (Total capital=Tier 1+Tier 2)	4,714,761	
60	Total risk weighted assets	24,353,012	
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	18.5%	
62	Tier 1 capital ratio	18.5%	
63	Total capital ratio	19.4%	
64	Institution specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	2.978%	
65	<i>of which: capital conservation buffer requirement</i>	2.500%	
66	<i>of which: bank specific countercyclical buffer requirement</i>	0.478%	
67	<i>of which: higher loss absorbency requirement</i>	–	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	11.36%	
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 LAC investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	–	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	481,192	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of related tax liability)	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)	212,196	
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	281,217	
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	–	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3 COMPOSITION OF CAPITAL (CONTINUED)

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

Table 2: Capital Disclosures (continued)

			Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
			HK\$'000
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>	–	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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)	3,102	3,102
9	<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>		
	Deferred tax assets net of deferred tax liabilities	40,494	—
10	<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>		

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

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 LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	309,353	298,808
19	<p>Explanation</p> <p>For the purpose of determining the total amount of significant LAC 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>		

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3 COMPOSITION OF CAPITAL (CONTINUED)

(c) Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:					not subject to capital requirements or subject to deduction from capital
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances from banks and central banks	1,900,471	1,309,129	1,309,129	–	–	–	–	
Placements with and advances to banks	1,858,962	1,858,962	1,858,962	–	–	–	–	
Financial assets at fair value through profit and loss	1,332,026	424,626	424,626	–	–	–	–	
Derivatives financial assets	55,448	55,448	–	55,448	–	5,177	–	
Loans and advances to customers	18,546,214	18,546,214	18,546,214	–	–	–	–	
Investment securities	11,096,413	7,602,626	7,602,626	–	–	–	–	
Interests in associate	4,659	–	–	–	–	–	–	
Investment in subsidiary	–	780,000	470,647	–	–	–	309,353	
Property and equipments	76,454	65,378	65,378	–	–	–	–	
Intangible assets	3,999	3,646	–	–	–	–	3,646	
Current tax recoverable	34,191	34,191	34,191	–	–	–	–	
Deferred tax assets	202,675	39,950	–	–	–	–	39,950	
Other assets	220,254	111,659	111,659	–	–	–	–	
Total assets	35,331,766	30,831,829	30,423,432	55,448	–	5,177	352,949	
Liabilities								
Deposits from customers	14,029,315	14,032,952	–	–	–	–	14,032,952	
Deposits from banks	4,255,218	4,255,218	–	–	–	–	4,255,218	
Derivative financial liabilities	22,204	22,204	–	22,204	–	3,769	–	
Certificate of deposits and other debt securities issued	11,362,244	7,479,265	–	–	–	–	7,479,265	
Current tax payable	81,020	–	–	–	–	–	–	
Deferred tax liabilities	27	–	–	–	–	–	–	
Lease liabilities	72,556	61,562	–	–	–	–	61,562	
Short-term borrowings	306,176	–	–	–	–	–	–	
Other liabilities	358,855	125,114	–	–	–	–	125,114	
Total liabilities	30,487,615	25,976,315	–	22,204	–	3,769	25,954,111	

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3 COMPOSITION OF CAPITAL (CONTINUED)

(c) Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories (continued)

The above table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation. The amounts shown in the column “Carrying values under scope of regulatory consolidation” do not equal the sum of the amounts shown in the remaining columns of the table for “Derivative financial assets” and “Derivative financial liabilities as they are subject to regulatory capital charges in credit risk, counterparty credit risk and market risk categories.

(d) Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements

		(a)	(b)	(c)	(d)	(e)
		Total HK\$'000	Items subject to:			
			credit risk framework HK\$'000	securitization framework HK\$'000	counterparty credit risk framework HK\$'000	market risk framework HK\$'000
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	30,478,880	30,423,432	–	55,448	5,177
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	22,204	–	–	22,204	3,769
3	Total net amount under regulatory scope of consolidation	30,456,676	30,423,432	–	33,244	1,408
4	Off-balance sheet amounts	4,454,647	225,811	–	–	–
5	<i>Potential future exposures</i>	38,043	–	–	38,043	–
6	<i>Differences due to consideration of provisions</i>	202,277	202,277	–	–	–
7	<i>Differences due to specific regulatory adjustments and other adjustments</i>	(1,880,087)	(1,865,890)	–	(14,197)	–
8	Exposure amounts considered for regulatory purposes	33,271,556	28,985,630	–	57,090	1,408

The key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation are: (i) off-balance sheet exposures including contingent liabilities and commitments after application of Credit Conversion Factor (“CCF”), (ii) potential future exposures for derivatives, (iii) differences due to consideration of provisions and (iv) differences due to specific regulatory adjustments and other differences, including recognition of effect of credit risk mitigations.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3 COMPOSITION OF CAPITAL (CONTINUED)

(e) 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)	N/A	N/A
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	RMB\$10 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 (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3 COMPOSITION OF CAPITAL (CONTINUED)

(e) 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) Components of Leverage ratio

Leverage Ratio Disclosure Template

		Leverage ratio framework As at 31 December 2021 HK\$'000	Leverage ratio framework As at 30 September 2021 HK\$'000
On-balance sheet exposures			
1	On-balance sheet items (excluding those arising from derivative contracts and SFTs, but including collateral)	31,096,432	31,083,667
2	Less: Asset amounts deducted in determining Tier 1 capital	(352,949)	(339,852)
3	Total on-balance sheet exposures (excluding derivatives contracts and SFTs)	30,743,483	30,743,815
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivatives contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	18,830	13,601
5	Add-on amounts for PFE associated with all derivatives contracts	55,256	56,112
6	Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	(16,996)	(20,637)
8	Less: Exempted CCP leg of client-cleared trade exposures	–	–
9	Adjusted effective notional amount of written credit-related contracts	–	–

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

4 LEVERAGE RATIO (CONTINUED)

(a) Components of Leverage ratio (continued)

Leverage Ratio Disclosure Template (continued)

		Leverage ratio framework As at 31 December 2021 HK\$'000	Leverage ratio framework As at 30 September 2021 HK\$'000
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivatives contracts	–	–
11	Total exposures arising from derivative contracts	57,090	49,076
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	4,454,647	4,849,319
18	Less: Adjustments for conversion to credit equivalent amounts	(3,829,471)	(4,149,554)
19	Off-balance sheet items	625,176	699,765
Capital and total exposures			
20	Tier 1 capital	4,502,565	4,605,111
20a	Total exposures before adjustments for specific and collective provisions	31,425,749	31,492,656
20b	Adjustments for specific and collective provisions	(320,051)	(399,579)
21	Total exposures after adjustments for specific and collective provisions	31,105,698	31,093,077
Leverage ratio			
22	Leverage ratio	14.5%	14.8%

Leverage ratio remained stable during the quarter.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

4 LEVERAGE RATIO (CONTINUED)

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

		Leverage ratio framework as at 31 December 2021 HK\$'000
1	Total consolidated assets as per published financial statements	35,331,766
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(4,499,937)
2a	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the LR exposure measure	–
3a	Adjustments for eligible cash pooling transactions	–
4	Adjustment for derivative contracts	57,090
5	Adjustment for SFTs (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)	625,176
6a	Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure	–
7	Other adjustments	(408,397)
8	Leverage ratio exposure measure	31,105,698

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. RISK MANAGEMENT APPROACH

In executing our strategic priorities and business opportunities, the Company is faced with economic, financial and other types of risk. These risks are interdependent and require a holistic approach to risk management. Very broadly, these risks can be aligned around the following key risk categories:

- Credit
- Market
- Liquidity
- Interest rate
- Operational
- Reputational
- Compliance

These key risks are explained in further details in sections 7 to 11.

The Board oversees the Company's affairs and provides sound leadership for the Chief Executive Officer and management. Authorised by the Board, various Board committees oversee specific responsibilities based on clearly defined terms of references. Under our risk management approaches, the Board, through the Risk & Compliance Committee ("**RCC**") or its designated committees, sets our Risk Appetite, oversees the establishment of risk management policies and processes, and sets risk limits to guide the Company's risk-taking. The RCC also oversees the identification, monitoring, management and reporting of credit, market, liquidity, operational and reputational risks. To facilitate the RCC's risk oversight, the following committees carrying risk management functions, have been established:

- Asset & Liability Committee
- Credit Committee
- Executive Committee
- Operations and Technology Committee

These committees as a whole serve as an executive forum to discuss and implement the Company's risk management. Key responsibilities include

- Assess and approve risk-taking activities
- Oversee the Company's risk management infrastructure, which includes frameworks, decision criteria, authorities, people, policies, standards, processes, information and systems
- Approve risk policies, the evaluation and endorsement of risk models
- Assess and monitor specific credit concentration
- Recommend scenarios and the resulting macroeconomic variable projections used for enterprise-wide stress tests

The members in these committees comprise representatives from the Risk Management unit ("**RMU**") as well as key business and support units.

Our Risk Appetite takes into account a spectrum of risk types, and it is implemented using thresholds, policies, processes and controls. It is driven by the Board and senior management with the involvement of management at departmental and divisional levels for providing information and analysis to facilitate the review and approval.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. RISK MANAGEMENT APPROACH (CONTINUED)

Threshold structures are essential in making the Company's Risk Appetite an intrinsic part of our businesses, because they help to keep all our risks within acceptable levels. Portfolio risk limits for the quantifiable risk types reach all parts of the Company from the top down, and these are implemented using formal frameworks. As for the non-quantifiable risk types, these are controlled under qualitative principles through established policies.

We manage these risks by diversifying our risk across industries and individual exposures. The Company has three lines of defense when it comes to risk taking where each line of defense has a clear responsibility. Working closely with the support units, our business units are our first line of defense for risk management. Their responsibilities include identification and management of risks inherent in their businesses and ensuring that our business operations remain within approved boundaries of our risk appetite and policies.

Corporate oversight and control functions such as RMU, Compliance and parts of Technology and Finance form the second line of defense. They are responsible for design and maintenance of the internal control frameworks covering financial, operational, compliance and information technology controls as well as risk management policies and systems. In addition, RMU is responsible for identifying individual and portfolio risk, approving transactions and trades and ensuring that they are within approved limits, and monitoring and reporting on the portfolio. These are carried out with a view of current and future potential developments, and evaluated through stress testing.

Company's Audit forms the third line of defense. It provides an independent assessment and assurance on the reliability, adequacy and effectiveness of our system of internal controls, risk management procedures, governance framework and processes.

The Company believes that effective safeguards against undesired business conduct have to go beyond a "tick-the-box" mentality. Other than relying on published codes of conduct, the Company also advocates the following organizational safeguards to maintain a strong risk and governance culture:

- Tone from the top
- Aligning strategies and incentives via key performance index. Performance is assessed against the key performance index to determine remuneration, providing a clear line of sight between employee goals and organizational imperatives
- Respecting voice of control functions
- Risk ownership
- Having established escalation protocols
- Encouraging constructive challenges at all level
- Reinforcing cultural alignment

In addition to cultivating a strong risk and governance culture, robust internal control processes and systems have been designed and implemented to support the respective risk management approaches. These are reviewed regularly by the respective risk units to assess and ensure their effectiveness.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. RISK MANAGEMENT APPROACH (CONTINUED)

Risk management reports including exposure and position information for all significant risk areas are provided to the risk management committees and senior management on a regular basis, as deemed appropriate. The Company, through various risk management committees, determines the risk reporting requirements that best suit the business. This includes the following:

- risk exposures and profile against risk limits and risk strategy
- large risk events and subsequent remedial action plans
- market developments such as macro-economic, credit, industry, country risks, emerging risk concentrations and stress tests related to these developments

Stress testing is an integral part of our risk management process, and includes both sensitivity analysis and scenario analysis. This related to regulatory and internal stress test over the whole portfolio and gamut of risk types. Every stress test is documented and results are discussed at the relevant risk management committees.

This element alerts senior management of our potential vulnerability to exceptional but plausible adverse events. As such, stress testing enables us to assess capital adequacy and identify potentially risky portfolio segments as well as inherent systematic risks. This then allows us to develop the right contingency plans, exit strategies and mitigating actions beforehand.

The capital planning process according to our Internal Capital Adequacy Assessment Process seeks to align our expected business trajectory to our Risk Appetite.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

6 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 31 December 2021	As at 30 September 2021	As at 31 December 2021
1	Credit risk for non-securitization exposures	21,269,626	21,559,035	1,701,570
2	Of which STC approach	21,269,626	21,559,035	1,701,570
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	24,757	26,325	1,981
7	Of which SA-CCR approach	24,757	26,325	1,981
7a	Of which CEM	–	–	–
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	28,225	23,738	2,258
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 (including IAA)	–	–	–
19	Of which SEC-SA	–	–	–
19a	Of which SEC-FBA	–	–	–
20	Market risk	792,688	814,188	63,415
21	Of which STM approach	792,688	814,188	63,415
22	Of which IMM approach	–	–	–

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

6 OVERVIEW OF RISK-WEIGHTED AMOUNT (CONTINUED)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
HK\$'000		As at 31 December 2021	As at 30 September 2021	As at 31 December 2021
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	1,034,738	1,045,963	82,779
24a	Sovereign concentration risk	NA	NA	NA
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,202,980	1,225,775	96,238
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	24,353,014	24,695,024	1,948,241

Total RWA remained stable during the quarter.

7 CREDIT RISK

(a) Qualitative Disclosures

(i) General Qualitative Disclosures

Credit risk arises from borrowers or counterparties failing to meet their debt or contractual obligations. It includes both the risk of lending as well as the pre-settlement and settlement risk of foreign exchange, derivatives and debt securities.

The Company's Credit Risk Policy sets forth the principles by which the Company conducts its credit risk management and control activities.

These policies, supplemented by a number of operational policies and standards, ensure consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across the Company, and provide guidance in the formulation of business-specific credit risk policies and standards.

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

7 CREDIT RISK (CONTINUED)

(a) Qualitative Disclosures (continued)

(i) General Qualitative Disclosures (continued)

In managing its risk profile, the Company has some criteria in place that serve to support the Company's portfolio strategy planning and ensure sound, well-defined and consistent credit underwriting standards across business units of the Company. The Company sets Risk Appetite to specify the guidelines for the acceptance of risks associated with the extension of credit facilities. The delegation of authority sets out the level of credit authority required for approval of credit extension to a counterparty group.

RMU is the second line of defense responsible for the development and maintenance of credit risk management and internal control frameworks. It provides independent review and challenge to the first line of defense (e.g. Business Units) who are ultimately responsible for the identification, assessment and management of risk on an end-to-end basis and in conformity with approved risk appetite and policies.

Credit risk managers under RMU reports to the Chief Risk Officer:

- to review and control credit risk and portfolio quality and ensure compliance with all applicable credit policies, and procedures.
- to work with first line of defense to perform post-approval monitoring and to ensure completion of the post-approval conditions and documentation

The Company's ultimate credit authority is vested with the Company's Board of Directors.

Please refer to Section 5 on the risk management committees established to discuss the various risk types.

RMU also partners the Compliance unit and Technology Risk to ensure all risk-taking activities abide by all regulations and Operation to perform independent checks on completeness of documentation, compliance of condition precedent / credit conditions prior to the activation of credit facilities, while Internal Audit unit serves as a third line of defense to provide an independent assessment and assurance on the reliability, adequacy and effectiveness of our system of internal controls, risk management procedures, governance framework and processes.

The Company constantly invests in systems to support risk monitoring and reporting for our businesses. The end-to-end credit process is continually reviewed and improved through various front-to-back initiatives involving the business units, operations, RMU and other key stakeholders.

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

7 CREDIT RISK (CONTINUED)

(a) Qualitative Disclosures (continued)

(ii) Qualitative Disclosures related to Credit Risk Mitigation techniques

The Company's Credit Risk Policy provides policy requirements and references on:

- Eligible collaterals
- Collateral valuation and valuation method
- Appointment of valuers / appraisers
- Loan-to-valuation / margin calls

Core processes for collateral evaluation include frequency of valuation for the various asset classes.

Where possible, the Company takes collateral as a secondary recourse to the borrower. This includes, but not limited to, cash, marketable securities, real estate, trade receivables, inventory and equipment, and other physical and/or financial collateral. The Company may also take fixed and floating charges on the assets of borrowers. Policies are in place to determine the eligibility of collateral for credit risk mitigation. These include requiring specific collateral to meet minimum operational requirements in order to be considered as effective risk mitigants. The Company's collateral is generally solid and periodic valuations of collateral are required. For derivatives, collateral arrangements are typically covered under market-standard documentation, such as International Swaps & Derivatives Association (ISDA) Agreements and Master Repurchase Agreements. The collateral received is marked-to-market on a frequency the Company and the counterparties mutually agreed upon, governed by internal guidelines with respect to the collateral eligibility. In the event of a default, the credit risk exposure is reduced by master-netting arrangements where the Company is allowed to offset what the Company owes a counterparty against what is due from that counterparty in a netting-eligible jurisdiction.

In times of difficulty, the Company will review the customer's specific situation and circumstances to assist them in restructuring their repayment liabilities.

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

7 CREDIT RISK (CONTINUED)

(a) Qualitative Disclosures (continued)

(iii) Additional Disclosures related to the Credit Quality of Assets

HKMA's Loan Classification System requires credit portfolios to be categorised into one of the following five categories, according to the Company's assessment of a borrower's ability to repay a credit facility from its normal sources of income.

Pass:	This refers to loans where borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt.
Special Mention:	This refers to loans where borrowers are experiencing difficulties which may threaten the lender's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.
Substandard:	This refers to loans where borrowers are displaying a definable weakness that is likely to jeopardize repayment. The Company is relying heavily on available security. This would include loans where some loss of principal or interest is possible after taking account of the net realizable value of the security, and rescheduled loans where concessions have been made to a borrower on interest or principal such as to render the loan "non-commercial" to the Company.
Doubtful:	This refers to loans where collection in full is improbable and the Company expects to sustain a loss of principal and/or interest after taking account of the net realizable value of the security.
Loss:	This refers to loans which are considered uncollectible after exhausting all collection efforts such as realization of collateral, institution of legal proceedings, etc.

Credit facilities are classified as restructured assets when the Company grants non-commercial concessions to a borrower because it is in a worse financial position or is unable to meet the original repayment schedule. A restructured credit facility is classified into the appropriate non-performing grade based on the assessment of the borrower's financial condition and its ability to repay according to the restructured terms.

Such credit facilities are not returned to the performing status until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the restructured terms.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 CREDIT RISK (CONTINUED)

(a) Qualitative Disclosures (continued)

(iii) Additional Disclosures related to the Credit Quality of Assets (continued)

Currently, different terminology and criteria exists for the categorization of quality of credit exposures for various purpose:

1. Prudential / Regulatory definition for capital adequacy purpose – “Default”

Under Basel, a default is considered to have occurred when an obligor is considered Unlikely to Pay (UTP) (with list of such indicators specified in the Basel Accord) its credit obligations in full without recourse to actions such as realizing collateral (if held), or the obligor is more than 90 Days Past Due (90DPD) on any material obligation. It should be noted that the Basel UTP and 90DPD criteria are aligned to the Company’s definition of Subjective and Technical Default respectively.

2. Accounting definition for valuation / provisioning purpose – “Credit-Impaired”

Under HKFRS 9, a financial asset is considered credit-impaired when one or more events (with list of such events specified in the HKFRS 9) that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. All such financial instruments are classified as Stage 3 and requires individual assessment of provisions under the principle of HKFRS 9. This is aligned to the Company’s definition. In other words exposures which are classified as Default under Basel purpose are considered to be Credit-Impaired for HKFRS 9 purpose.

(iv) ECAI rating under the STC approach

The Company adopted the Standard (Credit Risk) Approach for credit risk. The Company used the credit ratings from the following external credit assessment institutions (“ECAIs”) for all classes of credit exposures mentioned below:

- Moody’s Investors Services
- Standard and Poor’s Rating Services
- Fitch Ratings

The process used to map ECAIs issue specific rating to the exposures recorded in the Company’s banking book is consistent with those prescribed in the Banking (Capital) Rules.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 CREDIT RISK (CONTINUED)

(b) Credit quality of assets

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values
		Defaulted exposures	Non- defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
As at 31 December 2021		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	288,818	21,763,436	309,951	110,764	199,187	–	21,742,303
2	Debt securities	–	8,074,694	3,090	–	3,090	–	8,071,604
3	Off-balance sheet exposures	–	460,997	1,484	–	1,484	–	459,513
4	Total	288,818	30,299,127	314,525	110,764	203,761	–	30,273,420

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

- Subjective default: Borrower is considered to be unlikely to pay its credit obligations in full, without taking action such as realising security (if held).
- 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.

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

		HK\$'000
1	Defaulted loans and debt securities as at 30 June 2021	254,883
2	Loans and debt securities that have defaulted since the last reporting	288,818
3	Returned to non-defaulted status	–
4	Amounts written off	(255,935)
5	Other changes	1,052
	Defaulted loans and debt securities as at 31 December 2021	288,818

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 CREDIT RISK (CONTINUED)

(d) Additional Quantitative Disclosures related to Credit Quality of Assets

(i) Credit risk exposure by geographical areas, industry and residual maturity

Geographical area HK\$'000	As at 31 December 2021
– Hong Kong	10,666,677
– China	16,617,461
– Others	3,303,807
Total	30,587,945

Industry HK\$'000	As at 31 December 2021
– Banks	10,658,265
– Official sector	1,091,042
– Public sector entity	200,090
– Non-bank private sector	18,638,548
o Property development	2,823,875
o Property investment	396,582
o Civil engineering works	112,863
o Financial concerns	7,856,348
o Stockbrokers	135,531
o Electricity and gas	805,795
o Wholesale and retail trade	1,445,762
o Manufacturing	3,399,322
o Transport & transport equipment	322,732
o Information Technology	436,996
o Individuals	72,901
o Others	829,841
Total	30,587,945

Residual maturity HK\$'000	As at 31 December 2021
– Up to and including one year	23,025,471
– Over one year and up to including two years	4,191,767
– Over two years	3,370,707
Total	30,587,945

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 CREDIT RISK (CONTINUED)

(d) Additional Quantitative Disclosures related to Credit Quality of Assets (continued)

(ii) Impaired exposures and related allowances and write-offs by geographical area and industries

Geographical area
HK\$'000

	31 December 2021		
	Hong Kong	China	Total
Gross outstanding	359,641	–	359,641
<i>Of which:</i>			
<i>Exposures subject to Stage 3 ECL</i>	359,641	–	359,641
Less: Impairment	110,763	–	110,763
	248,878	–	248,878
	248,878	–	248,878

Impaired exposures subject to Stage 3 ECL are mainly related to property development and wholesale and retail trade.

(iii) Aging analysis of accounting past due exposures

Please refer to section 18 overdue and rescheduled assets for details.

(iv) Breakdown of restructured exposures

Please refer to section 18 overdue and rescheduled assets for details.

(e) Overview of Recognized Credit Risk Mitigation

		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
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021						
1	Loans	17,445,447	4,296,856	16,048	4,280,808	–
2	Debt securities	8,071,604	–	–	–	–
3	Total	25,517,051	4,296,856	16,048	4,280,808	–
4	Of which defaulted	214,811	–	–	–	–

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 CREDIT RISK (CONTINUED)

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

Exposure classes		As at 31 December 2021					
		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	1,091,298	–	1,091,298	–	40,119	4
2	PSE exposures	200,089	–	200,089	–	40,018	20
2a	Of which: domestic PSEs	200,089	–	200,089	–	40,018	20
2b	Of which: foreign PSEs	–	–	–	–	–	–
3	Multilateral development bank exposures	–	–	–	–	–	–
4	Bank exposures	6,277,540	–	9,157,661	–	3,645,777	40
5	Securities firm exposures	390,246	450,000	390,246	–	195,123	50
6	Corporate exposures	21,640,902	4,004,647	17,340,660	225,811	16,697,996	95
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	5,025	–	5,025	–	3,769	75
11	Residential mortgage loans	–	–	–	–	–	–
12	Other exposures which are not past due exposures	324,607	–	324,607	–	324,607	100
13	Past due exposures	214,811	–	214,811	–	322,217	150
14	Significant exposures to commercial entities	–	–	–	–	–	–
15	Total	30,144,518	4,454,647	28,724,397	225,811	21,269,626	73

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 CREDIT RISK (CONTINUED)

(g) Credit Risk Exposures by Asset Classes and by Risk Weights - STC approach

		As at 31 December 2021										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	890,702	-	200,596	-	-	-	-	-	-	-	1,091,298
2	PSE exposures	-	-	200,089	-	-	-	-	-	-	-	200,089
2a	Of which: domestic PSEs	-	-	200,089	-	-	-	-	-	-	-	200,089
2b	Of which foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	3,110,178	-	6,047,483	-	-	-	-	-	9,157,661
5	Securities firm exposures	-	-	-	-	390,246	-	-	-	-	-	390,246
6	Corporate exposures	-	-	-	-	1,793,727	-	15,715,969	56,775	-	-	17,566,471
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	-	-	-	-	-	5,025	-	-	-	-	5,025
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	324,607	-	-	-	324,607
13	Past due exposures	-	-	-	-	-	-	-	214,811	-	-	214,811
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	890,702	-	3,510,863	-	8,231,456	5,025	16,040,576	271,586	-	-	28,950,208

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

8 COUNTERPARTY CREDIT RISK (“CCR”)

(a) Qualitative Disclosures related to Counterparty Credit Risk

Counterparty Credit Risk is defined as the risk that a counterparty could default before the final settlement of the cash flows of derivatives or securities financing transactions.

Pre-settlement credit risk for traded products arising from a counterparty potentially defaulting on its obligations is quantified by evaluation of the market price, plus potential future exposure.

Issuer default risk that may also arise from derivatives, notes and securities are generally measured based on jump-to-default computations.

The Company's Credit Risk Policy and related standards set out the Company's overarching requirements for guarantees and Traded Products.

Credit limits and exposures to counterparties are subject to the Company's overarching credit risk management framework. Counterparties are assessed individually and assigned credit risk ratings. After the credit exposures are assessed, credit limits are proposed by the business unit, and are approved by the credit risk function after an independent credit assessment.

The Company actively monitors and manages our exposure to counterparties in OTC derivative trades to protect our balance sheet in the event of a counterparty default. Counterparty risk exposures that may be adversely affected by market risk events are identified, reviewed and acted upon by management, and highlighted to the appropriate risk management committees.

Furthermore, the Company enters into master netting / collateral arrangements with counterparties where it is appropriate and feasible to mitigate counterparty risk.

The Company's Credit Risk Policy provide the definition and management of specific wrong-way risk (SWWR). SWWR arises when there is unfavourable correlation between the mark-to-market value of the instrument and the financial strength of the counterparty. An example of SWWR is when granting a credit limit to a counterparty secured by the counterparty's own shares.

The Company does not have external credit ratings, which thus have no impact on the Company's collateral obligations under derivative contracts.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

8 COUNTERPARTY CREDIT RISK (“CCR”) (CONTINUED)

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

		As at 31 December 2021					
		Replacement cost (RC) HK\$'000	PFE HK\$'000	Effect EPE HK\$'000	Alpha (α) used for computing default risk exposure HK\$'000	Default risk exposure after CRM HK\$'000	RWA HK\$'000
1	SA – CCR approach (for derivative contracts)	13,450	38,043		1.4	72,090	24,757
1a	CEM (for derivative contracts)	–	–		1.4	–	–
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	Total						24,757

(c) CVA Capital Charge

		As at 31 December 2021	
		(a) EAD post CRM HK\$'000	(b) 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	72,090	28,225
4	Total	72,090	28,225

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

8 COUNTERPARTY CREDIT RISK (“CCR”) (CONTINUED)

(d) Counterparty Default Risk Exposures (Other than those to CCPs) by Asset Classes and by Risk Weights – for STC approach

Risk Weight Exposure class		As at 31 December 2021										Total default risk exposure after 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	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	37,710	-	34,329	-	-	-	-	-	72,039
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	51	-	-	-	51
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	-	-	37,710	-	34,329	-	51	-	-	-	72,090

(e) Composition of Collateral for Counterparty Default Risk Exposures (including those for Contracts or Transactions Cleared through CCPs)

	As at 31 December 2021					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received HK\$'000	Fair value of posted collateral HK\$'000
	Segregated HK\$'000	Unsegregated HK\$'000	Segregated HK\$'000	Unsegregated HK\$'000		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	59,468	-	16,996	-	-
Corporate bonds	-	-	-	-	-	-
Total	-	59,468	-	16,996	-	-

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

9 MARKET RISK UNDER STANDARDIZED APPROACH

(a) Qualitative Disclosures

Market risk is the risk of loss on assets, liabilities and commitments arising from the net effect of changes in market rates, such as foreign exchange rates and interest rates.

Market risk exposures are coming from either Trading book or Banking book.

Trading book consists of:

- proprietary positions in financial instruments taken for short-term resale or to benefit in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations;
- positions arising from the execution of trade orders from customers and market making;
- positions taken to hedge other elements of the trading book.

Banking book consists of:

- positions other than those categorised under the trading book.

The Company's approach to market risk management is formulated on the following building blocks:

- Market Risk Policies
- Market Risk Systems
- Market Risk Measurement, Monitoring and Reporting

The Company's market risk policies are designed to identify and analyse these market risks so as to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. Such policy is a compilation of sets of market risk related policies to govern the market risk profile of the Company and to ensure that market risk management strategies are effectively implemented for the Company. The Company has market risk management policies on foreign exchange, interest rate, debt securities and liquidity.

The level of sophistication of the Company's risk management information systems is commensurate with the nature, scale and complexity of the Company's business activities.

Market risk limits are put in place to control the Company's exposure to various quantifiable market risks associated with its business activities. Risk limits are set in line with the Company's risk appetite and are suitable for the size and complexity of the Company's business activities and compatible with the sophistication of its products and services. Market risk limits are reviewed at least annually to ensure its adequacy and appropriateness under the prevailing business environment. As and when the portfolio or market conditions change significantly, underlying assumptions for establishing the limits will then be reviewed in the context of changes in strategy, or according to the risk tolerance of the Company, market conditions, and regulatory requirement etc. Market risk exposures are monitored on a frequent basis.

Stress testing is an essential tool for the Company to manage market risk and is run on interest rate, foreign exchange, liquidity and debt security portfolio on a regular basis. It helps alert the Company's management to adverse unexpected outcomes related to a variety of risks to which the Company is exposed, and provides an indication of the amount of financial resources (including capital and liquidity) that might be necessary to absorb losses caused by, or to withstand, severe stressed conditions.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

9 MARKET RISK (CONTINUED)

(b) Market Risk under Standardized Approach

		31 December 2021
		RWA HK\$'000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	288
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	792,400
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	–
7	Other approach	–
8	Securitization exposures	–
9	Total	792,688

10 OPERATIONAL RISK

Operational risk is inherent in our business activities and it may arise from inadequate or failed internal processes, people, or systems, or from external events.

The Company's objective is to keep operational risk at appropriate levels, taking into account the markets the Company operates in, the characteristics of the businesses as well as our economic and regulatory environment.

The Company's approach to operational risk management comprises the following building blocks:

- Policies

The Company Operational Risk Management ("ORM") Policy sets our overall approach for managing operational risk in a structured, systematic and consistent manner.

There are policies in place to govern ORM practices across the Company. These include corporate operational risk policies that are owned by the respective corporate oversight and control functions. The key policies address risk areas relating to technology, compliance, fraud, money laundering, financing of terrorisms and sanctions, new product and outsourcing.

- Risk Methodologies

The Company adopts the Basic Indicator Approach to compute operational risk regulatory capital.

To manage and control operational risk, we use various tools including risk and control self-assessment, operational risk event management and key risk indicator monitoring.

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

10 OPERATIONAL RISK (CONTINUED)

Risk and control self-assessment is conducted by each business or support unit to identify key operational risk and assess the effectiveness of internal controls. When control issues are identified, the units develop action plans and track the resolution of the issues.

Operational risk events, including any significant incidents that may impact the Company's reputation, must be reported. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward looking manner.

Additional methodologies are in place to address subject-specific risks, including, but not limited to, the following:

Technology risk

Information technology risk is managed through an enterprise technology risk approach. This covers risk governance, communication, monitoring, assessment, mitigation and acceptance, and is supported by a set of information security policies and standards, control processes and risk mitigation programs.

We have also established policies and standards to manage and address cyber security risk. To enhance the management of this risk, the Company has appointed a Technology Risk Management Officer who is responsible for our cyber security risk management strategy and program.

Compliance risk

Compliance risk refers to the risk of the Company not being able to successfully conduct our business because of any failure to comply with laws, regulatory requirements, industry codes or standards of business and professional conduct applicable to the financial sector.

This includes, in particular, laws and regulations applicable to the licensing and conducting of banking or other financial businesses, financial crime such as anti-money laundering and countering the financing of terrorism, fraud and bribery/corruption. We maintain a compliance program designed to identify, assess, measure, mitigate and report on such risks through a combination of policy and relevant systems and controls.

The Company also provides relevant training and implements assurance processes. We strongly believe in the need to promote a strong compliance culture as well, and this is developed through the leadership of our Board and senior management.

Reputational risk

Reputational risk refers to the risk of failure to meet stakeholders' expectations as a result of any event, behavior and action by the company or our employees that might form a negative view of the Company. It is measured by reference to our reputation as indicated by our stakeholders, including media, regulators, customers and employees. It is monitored by a reputational risk management framework and managed by all staff as required by the Company's various policies and guidelines.

Fraud risk

The Company has established minimum standards for our business and support units to prevent, detect, investigate and remediate fraud and related events. These standards are implemented at the unit levels and aim to provide end-to-end management for fraud and related issues within the Company.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

10 OPERATIONAL RISK (CONTINUED)

Money laundering, financing of terrorism and sanctions risks

There are minimum standards for our business and support units to mitigate and manage our actual and/or potential exposure to money laundering, terrorist financing, sanctions, corruption, or other illicit financial activities. Accountabilities have also been established for the protection of the Company's assets and reputation, as well as the interests of our customers and shareholders.

New product and outsourcing risks

Each new product, service or outsourcing initiative is subject to a risk review and sign-off process, where relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service.

Other mitigation programs

To manage business disruptions effectively, business continuity management is vital as part of the Company's risk mitigation program.

A robust crisis management and business continuity management program is in place within essential business services for unforeseen events. Planning for business resilience includes the identification of key business processes via Business Impact Analysis as well as the documentation and maintenance of our Business Continuity Plan ("BCP").

The Company's BCP aims to minimize the impact of business interruption stemming from severe loss scenarios, and provide a reasonable level of service until normal business operations are resumed. Within the crisis management structure, we have in place an incident management process. This covers the situation from the point it begins and the crisis is declared to when the relevant committees or teams are activated to manage the crisis.

Exercises are conducted at least annually, simulating different scenarios to test our BCPs and crisis management protocol. These scenarios include technology issues affecting essential banking services across the Company, natural disasters with wide geographical impact, safety-at-risk incidents (e.g. terrorism) and other events leading to significant business disruption. The effectiveness of these exercises, as well as the Company's business continuity readiness, our alignment to regulatory guidelines and our disclosure of residual risks, are communicated with the Operations and Technology Committee.

To mitigate losses from specific unexpected and significant event risks, the Company purchases insurance policies from third-party insurers. The Company has acquired insurance policies relating to crime and professional indemnity; director and officer liability; property damage and business interruption; and general liability.

Processes, systems and reports

Robust internal control processes and systems are integral to identifying, monitoring, managing and reporting operational risk. All units are responsible for the day-to-day management of operational risk in their products, processes, systems and activities, in accordance with the various frameworks and policies. The Operations and Technology Committee and other corporate oversight and control functions oversee and monitor the effectiveness of operational risk management, assess key operational risk issues with the units to determine the impact across the Company, and report and/or escalate key operational risks to relevant senior management and Board-level committees with recommendations on appropriate risk mitigation strategies.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

11 INTEREST RATE RISK IN BANKING BOOK

		(a)	(b)	(c)	(d)
In HK\$'000		ΔEVE¹		ΔNII¹	
	Period	As at 31 December 2021	As at 31 December 2020	As at 31 December 2021	As at 31 December 2020
1	Parallel up	122,000	109,000	(61,000)	(57,000)
2	Parallel down	4,000	9,000	137,000	156,000
3	Steepener	28,000	39,000		
4	Flattener	13,000	30,000		
5	Short rate up	58,000	49,000		
6	Short rate down	7,000	9,000		
7	Maximum	122,000	109,000	137,000	156,000
	Period	As at 31 December 2021		As at 31 December 2020	
8	Tier 1 capital	4,502,565		4,465,317	

¹¹ Positive values of Δ EVE and Δ NII indicate losses under the respective scenarios, in accordance with HKMA's disclosure requirement.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

12 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:

	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institution	Non-financial private sector	
As at 31 December 2021:					
Developed countries	2,087,313	–	116,259	369,628	2,573,200
Offshore centers	829,800	–	1,605,348	3,083,851	5,518,999
of which Hong Kong SAR	708,709	–	1,605,348	2,784,759	5,098,816
Developing Asia and Pacific	2,872,228	200,596	1,565,950	11,042,805	15,681,579
of which China	2,848,402	200,596	1,487,962	10,816,843	15,353,803
	<u>5,789,341</u>	<u>200,596</u>	<u>3,287,557</u>	<u>14,496,284</u>	<u>23,773,778</u>

	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institution	Non-financial private sector	
As at 31 December 2020:					
Developed countries	783,274	–	120,799	477,056	1,381,129
Offshore centers	532,537	–	2,337,583	4,022,043	6,892,163
of which Hong Kong SAR	390,150	–	2,337,583	3,593,108	6,320,841
Developing Asia and Pacific	1,125,795	–	2,910,053	11,796,665	15,832,513
of which China	1,101,873	–	2,910,053	11,571,590	15,583,516
	<u>2,441,606</u>	<u>–</u>	<u>5,368,435</u>	<u>16,295,764</u>	<u>24,105,805</u>

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

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

13 SEGMENTAL INFORMATION

The following sections show the financial information of the Company and its subsidiaries.

(a) Segmental information by class of business

In HK\$'000	Commercial	Investment	Others	Total
2021	banking	banking		
Total operating income	561,478	245,546	(12,169)	791,855
Profit before allowances for credit and other losses	417,574	126,950	–	544,524
Profit before income tax	49,026	(133,176)	–	(84,150)
Total assets	<u>30,831,829</u>	<u>5,294,119</u>	<u>(794,182)</u>	<u>35,331,766</u>
2020				
Total operating income	617,510	373,504	(14,280)	976,734
Profit before allowances for credit and other losses	475,798	249,655	–	725,453
Profit before income tax	51,146	220,363	–	271,509
Total assets	<u>29,079,170</u>	<u>10,458,091</u>	<u>(792,755)</u>	<u>38,744,506</u>

(b) Segmental information by booking location

In HK\$'000	2021		2020	
	Hong Kong	China	Hong Kong	China
Total operating income	319,985	172,382	897,490	114,977
Profit before income tax	(543,345)	117,867	216,436	71,153
Total assets	42,504,337	1,034,859	43,187,626	722,411
Total liabilities	37,053,080	552,118	37,217,802	370,551
Contingent liabilities and commitments	<u>4,454,647</u>	<u>–</u>	<u>2,826,267</u>	<u>–</u>

Commercial banking business mainly comprises deposit account services, corporate lending and trade finance.

Investment banking business primarily include, financial and investment advisory, mergers and acquisitions, securities brokerage, asset management, fixed income and direct investment.

Others encompass the results of that are not attributed to business segments.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

14 MAINLAND ACTIVITIES

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Disclosure Rules with reference to the HKMA return in respect of non-bank Mainland China exposures.

	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total exposures HK\$'000
At 31 December 2021			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	2,862,501	–	2,862,501
2. Local governments, local government-owned entities and their subsidiaries and JVs	3,217,717	–	3,217,717
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	7,759,403	272,872	8,032,275
4. Other entities of central government not reported in item 1 above	1,964,565	4,872	1,969,437
5. Other entities of local governments not reported in item 2 above	176,062	–	176,062
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	1,645,638	42,628	1,688,266
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	3,130,134	–	3,130,134
	<u>20,756,020</u>	<u>320,372</u>	<u>21,076,392</u>
Total assets after provision	<u>30,856,021</u>		
On-balance sheet exposures as percentage of total assets	<u>67.3%</u>		

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

14 MAINLAND ACTIVITIES (CONTINUED)

At 31 December 2020	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total exposures HK\$'000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	2,902,919	–	2,902,919
2. Local governments, local government-owned entities and their subsidiaries and JVs	3,280,481	–	3,280,481
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	8,734,076	1,222	8,735,298
4. Other entities of central government not reported in item 1 above	1,354,109	144,345	1,498,454
5. Other entities of local governments not reported in item 2 above	504,620	114,502	619,122
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	2,386,635	76,748	2,463,383
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	2,936,478	26,427	2,962,905
	<u>22,099,318</u>	<u>363,244</u>	<u>22,462,562</u>
Total assets after provision	<u>29,080,560</u>		
On-balance sheet exposures as percentage of total assets	<u>76.0%</u>		

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

15 CURRENCY CONCENTRATIONS

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
At 31 December 2021				
Spot assets	24,248,105	2,124,638	798,424	27,171,167
Spot liabilities	(24,208,247)	(2,731,518)	(68,881)	(27,008,646)
Forward purchases	2,732,056	849,157	44,250	3,625,463
Forward sales	(1,582,150)	(550,243)	(742,698)	(2,875,091)
Net long/(short) non-structural position	<u>1,189,764</u>	<u>(307,966)</u>	<u>31,095</u>	<u>912,893</u>
At 31 December 2020				
Spot assets	28,045,248	2,176,236	2,493,818	32,715,302
Spot liabilities	(26,610,023)	(3,160,912)	(481,632)	(30,252,567)
Forward purchases	2,385,006	440,060	72,585	2,897,651
Forward sales	(2,187,683)	(5,958)	(2,069,373)	(4,263,014)
Net long/(short) non-structural position	<u>1,632,548</u>	<u>(550,574)</u>	<u>15,398</u>	<u>1,097,372</u>

As at 31 December 2021 and 2020, there was no net structural position.

16 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 Company’s CCyB ratio.

In HK\$'000		As at 31 December 2021			
	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	1.000	8,919,816		
	Sum		8,919,816		
	Total		18,679,221	0.478	116,407

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

17 FURTHER ANALYSIS OF LOANS AND ADVANCES TO CUSTOMERS

Impaired loans and advances, overdue loans and advances, Stage 3 ECL and Stage 1 & 2 ECL, in respect of industry sectors representing not less than 10% of gross loans and advances to customers are analysed as follows:

	31 December 2021			
	Impaired	Overdue	Stage 3	Stage 1/2
	loans and	loans and	ECL	ECL
	advances	advances	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial concerns	–	–	–	(67,153)
Property development	70,023	–	(36,342)	(17,497)
Manufacturing	–	–	–	(32,842)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	31 December 2020			
	Impaired	Overdue	Stage 3	Stage 1/2
	loans and	loans and	ECL	ECL
	advances	advances	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial concerns	–	–	–	(102,614)
Property development	503,902	503,902	(248,849)	(30,458)
Manufacturing	–	–	–	(32,758)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company from time to time reviews the industry classification, and therefore the prior year information has been re-presented in order to conform with the industry classification adopted in the current year.

BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021

18 OVERDUE AND RESCHEDULED ASSETS

(a) Overdue loans and advances to customers

The overdue loans and advances of the Company are analysed as follows:

	<u>As at 31 December 2021</u>		<u>As at 31 December 2020</u>	
	<u>HK\$'000</u>	<u>% of gross loans and advances to customers</u>	<u>HK\$'000</u>	<u>% of gross loans and advances to customers</u>
Less than three months	287,082	1.52	–	–
Six months or less but over three months	–	–	–	–
One year or less but over six months	–	–	503,902	2.45
Over one year	–	–	–	–
	<u>287,082</u>	<u>1.52</u>	<u>503,902</u>	<u>2.45</u>
Stage 3 ECL made in respect of the above overdue loans and advances	<u>73,565</u>		<u>248,849</u>	
Current market value of collateral held against the covered portion of the above overdue loans and advances	<u>–</u>		<u>–</u>	
Covered portion of the above overdue loans and advances	<u>–</u>		<u>–</u>	
Uncovered portion of the above overdue loans and advances	<u>287,082</u>		<u>503,902</u>	

(b) Rescheduled loans and advances

The rescheduled loans and advances of the Company are analysed as follows:

	<u>As at 31 December 2021</u>		<u>As at 31 December 2020</u>	
	<u>In HK\$'000</u>	<u>% of gross loans and advances to customers</u>		<u>% of gross loans and advances to customers</u>
Rescheduled loans and advances	<u>287,082</u>	<u>1.52</u>	<u>–</u>	<u>–</u>

(c) Repossessed assets

There were no repossessed assets as at 31 December 2021 and 31 December 2020.

**BANK OF SHANGHAI (HONG KONG) LIMITED
REGULATORY DISCLOSURES STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

18 OVERDUE AND RESCHEDULED ASSETS (CONTINUED)

(d) Overdue other assets

The overdue other assets of the Company are analysed as follows:

In HK\$'000	As at 31 December 2021	As at 31 December 2020
Less than 3 months	3,523	1,818
Over 3 months but less than 6 months	1,356	–
One year or less but over six months	2,039	37,882
Over one year	1,827	–
	8,745	39,700