



上海銀行(香港)
Bank of Shanghai (Hong Kong)

BANK OF SHANGHAI (HONG KONG) LIMITED

2023 INTERIM FINANCIAL STATEMENTS

BANK OF SHANGHAI (HONG KONG) LIMITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

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BANK OF SHANGHAI (HONG KONG) LIMITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

Bank of Shanghai (Hong Kong) Limited (the “Company”) is pleased to present the condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the first half of 2023 ended 30 June 2023. The condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows, and the condensed consolidated statement of changes in equity for the six months period ended 30 June 2023, and the condensed consolidated statement of financial position as at 30 June 2023 of the Group, along with the explanatory notes (all of which are unaudited) are illustrated on pages 6 to 30 of this condensed consolidated financial statements.

In preparing the unaudited condensed consolidated financial statements and the Regulatory Disclosure Statements for the first half of 2023, the Company has fully complied with the disclosure requirements stipulated in the Banking (Disclosure) Rules.

Financial Review

The Group’s pre-tax profit for the period was HK\$200 million (first half of 2022: loss of HK\$90 million). It should be noted that the Group’s operating results included a foreign exchange translation loss of HK\$34 million (first half of 2022: HK\$33 million) on the capital denominated in Renminbi (“RMB”) due to depreciation of RMB against HK Dollar during the period. The increase in the pre-tax profit was mainly driven by the decrease in net loss from investment securities and allowances for credit and other losses. Net interest income increased by 8% to HK\$292 million mainly attributable to the increase in net interest margin of interest bearing assets and liabilities.

Operating expenses decreased by 11% to HK\$102 million. Allowances for credit and other losses were HK\$148 million, 32% lower than the same period last year. Total gross loans and advances to customers has increased by 22% to HK\$19,915 million (2022 year end: HK\$16,271 million), customer deposits increased by 30% to HK\$13,701 million (2022 year end: HK\$10,561 million).

The Group’s financial position remained sound. Total capital adequacy ratio was maintained at a comfortable level at 23.9%, and the average liquidity maintenance ratio (“LMR”) at 182.9%. Both ratios are calculated on regulatory consolidated basis and adequately met the statutory requirements.

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Interest income		782,710	432,896
Interest expense		(490,754)	(162,168)
Net interest income	4	291,956	270,728
Net fee and commission income	5	91,374	117,593
Net income from financial instruments measured at fair value	6	74,897	86,784
Net loss from investment securities		(8,091)	(233,606)
Other operating income		9	175
Total operating income		450,145	241,674
Operating expenses	7	(102,056)	(114,827)
Operating profit before impairment losses		348,089	126,847
Allowances for credit and other losses	8	(148,104)	(217,239)
Profit/(loss) before taxation		199,985	(90,392)
Taxation	9	(60,298)	(23,865)
Profit/(loss) for the period		139,687	(114,257)
Other comprehensive income for the period, net of tax			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for subsidiaries		(30,208)	(23,311)
Net movement in revaluation reserve	10	(98,406)	(438,887)
Total comprehensive income for the period		11,073	(576,455)

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Assets			
Cash and balances with banks and central bank	11	818,760	1,357,023
Placements with and advances to banks	12	406,459	499,981
Financial assets at fair value through profit or loss		1,122,899	981,877
Derivative financial assets	20	80,753	16,426
Loans and advances to customers	13	19,223,653	15,565,537
Investment securities	14	10,666,457	9,703,324
Investment in associate		5,537	4,658
Property and equipments	15	38,331	51,690
Intangible assets		2,779	2,932
Current tax recoverable		34,191	34,191
Deferred tax assets		341,810	351,729
Other assets	16	453,361	453,388
TOTAL ASSETS		33,194,990	29,022,756
Liabilities			
Deposits from customers	17	13,700,584	10,560,680
Deposits from banks		4,561,662	6,800,864
Derivative financial liabilities	20	3,543	179,940
Certificates of deposit and other debt securities issued	18	7,569,965	6,392,779
Current tax payable		59,436	84,082
Deferred tax liabilities		4,186	–
Lease liabilities		34,743	47,505
Short-term borrowings		296,418	399,583
Other liabilities	19	477,112	386,531
TOTAL LIABILITIES		26,707,649	24,851,964
Capital and reserves			
Share capital	22	6,305,476	4,000,000
Retained profits		618,547	478,860
Other reserves		(436,682)	(308,068)
TOTAL EQUITY		6,487,341	4,170,792
TOTAL EQUITY AND LIABILITIES		33,194,990	29,022,756

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$'000	Retained profits HK\$'000	Revaluation reserve HK\$'000	Regulatory reserve HK\$'000	Capital Contribution HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
Balance at 1 January 2022	4,000,000	1,079,847	(381,261)	–	129,874	15,691	4,844,151
Loss for the period	–	(114,257)	–	–	–	–	(114,257)
Other comprehensive income	–	–	(438,887)	–	–	(23,311)	(462,198)
Total comprehensive income	–	(114,257)	(438,887)	–	–	(23,311)	(576,455)
Transfers	–	–	–	–	–	–	–
Balance at 30 June 2022 and 1 July 2022	4,000,000	965,590	(820,148)	–	129,874	(7,620)	4,267,696
Loss for the period	–	(486,730)	–	–	–	–	(486,730)
Other comprehensive income	–	–	408,809	–	–	(18,983)	389,826
Total comprehensive income	–	(486,730)	408,809	–	–	(18,983)	(96,904)
Transfers	–	–	–	–	–	–	–
Balance at 31 December 2022 and 1 January 2023	4,000,000	478,860	(411,339)	–	129,874	(26,603)	4,170,792
Profit for the period	–	139,687	–	–	–	–	139,687
Other comprehensive income	–	–	(98,406)	–	–	(30,208)	(128,614)
Total comprehensive income	–	139,687	(98,406)	–	–	(30,208)	11,073
Issuance of new ordinary shares	2,305,476	–	–	–	–	–	2,305,476
Transfers	–	–	–	–	–	–	–
Balance at 30 June 2023	<u>6,305,476</u>	<u>618,547</u>	<u>(509,745)</u>	<u>–</u>	<u>129,874</u>	<u>(56,811)</u>	<u>6,487,341</u>

The regulatory reserve is maintained in accordance with Hong Kong Banking regulations. At 30 June 2023, no regulatory reserve (2022: Nil) was required to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve was made directly through retained profits after consultation with the Hong Kong Monetary Authority. The regulatory reserve is non-distributable.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Notes	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Net cash (outflow)/inflow from operating activities	21(a)	(2,727,703)	343,369
Investing activities			
Proceeds from sale and redemption of investment securities		4,935,069	9,203,623
Purchase of investment securities		(6,613,106)	(8,149,942)
Purchases of property and equipments and intangible assets		(1,195)	(1,201)
Purchase of interests in associates		(1,049)	–
Sale of interests in associates		–	166
Interest received from investment securities		88,584	200,246
Net cash (outflow)/ inflow from investing activities		(1,591,697)	1,252,892
Financing activities			
Proceeds from the issuance of new ordinary shares		2,305,476	–
Proceeds from the issuance of other debt securities		1,096,684	–
Interest paid for other debt securities		(24,908)	(24,323)
Net proceeds from short-term borrowings		(103,165)	(71,930)
Interest paid for short-term borrowings		(15,800)	(8,594)
Payment of lease liabilities		(13,165)	(13,509)
Net cash inflow/ (outflow) from financing activities	21(d)	3,245,122	(118,356)
(Decrease)/ increase in cash and cash equivalents		(1,074,278)	1,477,905
Cash and cash equivalents at 1 January		2,889,578	3,874,467
Cash and cash equivalents at 30 June	21(b)	1,815,300	5,352,372

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF CONSOLIDATION

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

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

(2) BASIS OF PREPARATION

(a) Significant accounting policies

These condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They were authorised for issuance on 28 September 2023.

The accounting policies applied in preparing the condensed consolidated financial statements are the same as those applied in preparing the financial statements for the year ended 31 December 2022 as disclosed in the Group’s Directors’ Report and Consolidated Financial Statements for the year ended 31 December 2022, which were prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), except for the accounting policy changes that are expected to be reflected in 2022 annual financial statements. Details of any changes in accounting policies are set out in note (2)(b).

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

These condensed consolidated financial statements contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

These condensed consolidated financial statements are unaudited.

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

(2) BASIS OF PREPARATION (CONTINUED)

(b) New and amended standards

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

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

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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

(c) Critical accounting estimates

The preparation of condensed consolidated financial statements requires management to exercise judgements, use estimates and make assumptions that affect the application of policies and reported amounts in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. In preparing this condensed consolidated financial statements, critical accounting estimates and assumptions used that are significant to the condensed consolidated financial statements, and areas involving a higher degree of judgement and complexity were the same as those disclosed in the consolidated financial statements for the year ended 31 December 2022.

(3) CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND STATUTORY FINANCIAL STATEMENTS

The financial information relating to the year ended 31 December 2022 that is included in the condensed consolidated financial statements for the six months ended 30 June 2023 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Group has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 622(3) of and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Group's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

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

(4) NET INTEREST INCOME

Interest income mainly accrued on loan and advances to customers and investment securities amounted to HK\$502,987,000 and HK\$211,957,000 respectively (first half of 2022: HK\$237,538,000 and HK\$188,014,000 respectively).

Interest income calculated using the effective interest method amounted to HK\$782,710,000 (first half of 2022: HK\$432,896,000).

Interest expense mainly recognised on deposits from customers and certificates of deposit and other debt securities issued amounted to HK\$246,632,000 and HK\$63,217,000 respectively (first half of 2022: HK\$58,577,000 and HK\$56,520,000 respectively).

Interest expense recognised on financial liabilities that was not measured at fair value through profit or loss amounted to HK\$490,754,000 (first half of 2022: HK\$162,168,000).

The interest income accrued on impaired financial assets and on unwinding of discount on loan impairment allowances amounted to HK\$11,383,000 for the six months ended 30 June 2023 (first half of 2022: HK\$7,870,000).

(5) NET FEE AND COMMISSION INCOME

	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Fee and commission income		
– Credit facilities	6,570	7,896
– Trade services	1,363	1,441
– Corporate advisory	88,909	106,131
– Asset management	2,305	8,772
– Others	321	1,431
	<u>99,468</u>	<u>125,671</u>
Fee and commission expense	<u>(8,094)</u>	<u>(8,078)</u>
Net fee and commission income	<u><u>91,374</u></u>	<u><u>117,593</u></u>

Fee and commission income of HK\$99,468,000 (first half of 2022: HK\$125,671,000) and fee and commission expense of HK\$8,094,000 (first half of 2022: HK\$8,078,000) for the six months ended 30 June 2023 arose from financial assets and financial liabilities that were not measured at fair value through profit or loss.

Net fee and commission income arose from trust or other fiduciary activities in which the Group held or invested on behalf of its customers for the six months ended 30 June 2023 was HK\$2,305,000 (first half of 2022: HK\$8,772,000).

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

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

	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Foreign exchange	(9,848)	38,497
Interest rate and others	84,745	48,287
	<u>74,897</u>	<u>86,784</u>

The foreign exchange gain in 2023 included the translation loss of HK\$34 million (first half of 2022: loss of HK\$33 million) on those Renminbi (“RMB”) assets funded by the Company’s capital denominated in RMB (which was recorded on these financial statements at historical exchange rate) due to the depreciation of RMB against HKD in 2023. Excluding this translation loss, trading income from normal foreign exchange activities was HK\$24 million (first half of 2022: HK\$71 million).

(7) OPERATING EXPENSES

	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Staff costs		
– Salaries and other benefits	62,731	77,620
– Pension and provident funds	2,740	3,275
	<u>65,471</u>	<u>80,895</u>
Premises and equipment expenses excluding depreciation		
– Variable lease payments not included in the measurement of lease liabilities	28	30
– Maintenance and office facility expenses	1,975	2,121
– Others	833	746
	<u>2,836</u>	<u>2,897</u>
Auditors’ remuneration	267	310
Depreciation of property and equipments	891	712
Amortisation of right-of-use (“RoU”) assets	12,861	12,949
Amortisation of intangible assets	739	1,207
Legal and professional fees	2,694	1,047
IT and systems expenses	6,546	5,182
Data subscription fees	3,721	3,526
Other operating expenses	6,030	6,102
	<u>33,749</u>	<u>31,035</u>
	<u>102,056</u>	<u>114,827</u>

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

(8) ALLOWANCES FOR CREDIT AND OTHER LOSSES

	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Cash and balances with banks and central bank	(55)	(10)
Placements with and advances to banks	22	(436)
Loans and advances to customers	66,286	134,926
Investment securities	83,681	83,769
Other assets	2,001	2,161
Off-balance sheet credit exposures	(3,831)	(3,171)
	<u>148,104</u>	<u>217,239</u>

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

	Balance at 1 January HK\$'000	Charge to / (release from) statement of comprehensive income HK\$'000	Recoveries HK\$'000	Write-off HK\$'000	Exchange and other movements HK\$'000	Balance at 30 June HK\$'000
2023						
Stage 3 ECL						
Loans and advances to customers	505,000	(41,609)	-	(70,649)	(10,170)	382,572
Investment securities	676,373	110,335	-	-	-	786,708
Other assets	16,561	395	-	(1,078)	56	15,934
	<u>1,197,934</u>	<u>69,121</u>	<u>-</u>	<u>(71,727)</u>	<u>(10,114)</u>	<u>1,185,214</u>
Stage 1&2 ECL						
Cash and balances with banks and central bank	95	(55)	-	-	-	40
Placements with and advances to banks	19	22	-	-	-	41
Loans and advances to customers	200,809	107,895	-	-	-	308,704
Investment securities	132,127	(26,654)	-	-	-	105,473
Other assets	847	1,606	-	-	(127)	2,326
Off-balance sheet credit exposures	15,730	(3,831)	-	-	-	11,899
	<u>349,627</u>	<u>78,983</u>	<u>-</u>	<u>-</u>	<u>(127)</u>	<u>428,483</u>
Total allowances for credit and other losses	<u>1,547,561</u>	<u>148,104</u>	<u>-</u>	<u>(71,727)</u>	<u>(10,241)</u>	<u>1,613,697</u>

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

	Balance at 1 January HK\$'000	Charge to / (release from) statement of comprehensive income HK\$'000	Recoveries HK\$'000	Write-off HK\$'000	Exchange and other movements HK\$'000	Balance at 30 June HK\$'000
2022						
Stage 3 ECL						
Loans and advances to customers	109,907	110,091	–	–	(6,529)	213,469
Investment securities	279,063	16,456	–	–	–	295,519
Other assets	17,763	2,161	–	–	(729)	19,195
	<u>406,733</u>	<u>128,708</u>	<u>–</u>	<u>–</u>	<u>(7,258)</u>	<u>528,183</u>
Total specific allowances						
	<u>406,733</u>	<u>128,708</u>	<u>–</u>	<u>–</u>	<u>(7,258)</u>	<u>528,183</u>
Stage 1&2 ECL						
Cash and balances with banks and central bank	74	(10)	–	–	–	64
Placements with and advances to banks	655	(436)	–	–	–	219
Loans and advances to customers	198,458	24,835	–	–	–	223,293
Investment securities	85,924	67,313	–	–	–	153,237
Off-balance sheet credit exposures	9,919	(3,171)	–	–	–	6,748
	<u>295,030</u>	<u>88,531</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>383,561</u>
Total general allowances						
	<u>295,030</u>	<u>88,531</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>383,561</u>
Total allowances for credit and other losses	<u>701,763</u>	<u>217,239</u>	<u>–</u>	<u>–</u>	<u>(7,258)</u>	<u>911,744</u>

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

(9) TAXATION

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

	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Current tax		
Hong Kong profits tax		
– Provision for the period	2,046	5,108
	<u>2,046</u>	<u>5,108</u>
Taxation outside Hong Kong		
– Withholding tax in the People's Republic of China	85	4
– Provision for the period	17,655	28,945
	<u>19,786</u>	<u>34,057</u>
Deferred tax		
Origination and reversal of temporary differences	40,512	(10,192)
	<u>60,298</u>	<u>23,865</u>

The provision for Hong Kong profits tax was calculated at 16.5% (2022: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the countries in which the Group operates.

(10) OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Financial assets at fair value through other comprehensive income:		
Changes in fair value recognised during the period	(133,929)	(763,414)
Reclassification adjustments for amounts transferred to profit or loss upon disposal	8,091	233,552
Net deferred tax credited to revaluation reserve	27,432	90,975
	<u>(98,406)</u>	<u>(438,887)</u>
Net movement in revaluation reserve during the period recognised in other comprehensive income	<u>(98,406)</u>	<u>(438,887)</u>

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

(11) CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Balances with banks	18,282	1,197,510
Balances with central bank	800,518	159,608
	<u>818,800</u>	<u>1,357,118</u>
Allowance for credit and other losses at stage 1	(40)	(95)
	<u>818,760</u>	<u>1,357,023</u>

A subsidiary of the Company maintains segregated accounts with authorised institutions as a result of its normal business transaction. At 30 June 2023, segregated accounts dealt within these financial statements amounted to HK\$2,000 (2022: HK\$50,000).

(12) PLACEMENTS WITH AND ADVANCES TO BANKS

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Gross placements with and advances to banks		
– maturing within one month	391,774	500,000
– maturing between one and twelve months	14,726	–
	<u>406,500</u>	<u>500,000</u>
Allowance for credit and other losses at stage 1	(41)	(19)
	<u>406,459</u>	<u>499,981</u>

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

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

(13) LOANS AND ADVANCES TO CUSTOMERS

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Gross loans and advances to customers	19,914,929	16,271,346
Less: Allowance for credit and other losses		
– Stage 1 & 2 ECL	(308,704)	(200,809)
– Stage 3 ECL	(382,572)	(505,000)
	<u>19,223,653</u>	<u>15,565,537</u>
Comprising:		
– Trade bills	–	–
– Loans	<u>19,223,653</u>	<u>15,565,537</u>
	<u>19,223,653</u>	<u>15,565,537</u>

Loans and advances to customers by credit quality

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 30 June 2023				
Neither past due nor impaired				
– Pass	18,864,874	–	–	18,864,874
– Special Mention	–	319,037	–	319,037
Past due but not impaired ^(a)	–	–	–	–
Impaired	–	–	731,018	731,018
Allowance for credit and other losses	(206,697)	(102,007)	(382,572)	(691,276)
	<u>18,658,177</u>	<u>217,030</u>	<u>348,446</u>	<u>19,223,653</u>
As at 31 December 2022				
Neither past due nor impaired				
– Pass	15,200,312	–	–	15,200,312
– Special Mention	–	176,617	–	176,617
Past due but not impaired ^(a)	–	–	–	–
Impaired	–	–	894,417	894,417
Allowance for credit and other losses	(181,119)	(19,690)	(505,000)	(705,809)
	<u>15,019,193</u>	<u>156,927</u>	<u>389,417</u>	<u>15,565,537</u>

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

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(14) INVESTMENT SECURITIES

	30 June 2023	31 December 2022
	HK\$'000	HK\$'000
Investment securities measured at amortised cost		
– at stage 1	2,595,792	2,408,440
– at stage 2	181,466	310,082
– at stage 3	808,183	670,828
Of which: past due and impaired	808,183	670,828
Allowance for credit and other losses		
– at stage 1	(1,097)	(849)
– at stage 2	(62,400)	(79,207)
– at stage 3	(455,236)	(379,550)
Of which : past due and impaired	(455,236)	(379,550)
	3,066,708	2,929,744
	3,066,708	2,929,744
Investment securities at fair value through other comprehensive income		
– at stage 1	7,496,346	6,607,211
– at stage 2	47,236	62,526
– at stage 3	56,167	103,843
Of which: past due and impaired	56,167	103,843
	7,599,749	6,773,580
	7,599,749	6,773,580
	10,666,457	9,703,324

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(15) PROPERTY AND EQUIPMENTS

Details of movement of property and equipments are as follows:

	Leasehold improvements HK\$'000	Furniture, computer and other equipments HK\$'000	Motor vehicles HK\$'000	RoU assets – properties and office equipment HK\$'000	Total HK\$'000
Cost:					
At 1 January 2022	22,442	24,686	3,012	87,262	137,402
Additions	33	2,763	–	777	3,573
Write-off	–	(217)	–	(525)	(742)
Exchange adjustments	–	(196)	(100)	(1,007)	(1,303)
At 31 December 2022	<u>22,475</u>	<u>27,036</u>	<u>2,912</u>	<u>86,507</u>	<u>138,930</u>
At 1 January 2023	22,475	27,036	2,912	86,507	138,930
Additions	–	608	–	–	608
Write-off	–	(1)	–	–	(1)
Exchange adjustments	–	(312)	(53)	(814)	(1,179)
At 30 June 2023	<u>22,475</u>	<u>27,331</u>	<u>2,859</u>	<u>85,693</u>	<u>138,358</u>
Accumulated depreciation:					
At 1 January 2022	(22,373)	(22,828)	(2,512)	(13,235)	(60,948)
Charge for the year	(41)	(1,218)	(326)	(25,788)	(27,373)
Write-off	–	218	–	307	525
Exchange adjustments	–	68	173	315	556
At 31 December 2022	<u>(22,414)</u>	<u>(23,760)</u>	<u>(2,665)</u>	<u>(38,401)</u>	<u>(87,240)</u>
At 1 January 2023	(22,414)	(23,760)	(2,665)	(38,401)	(87,240)
Charge for the period	(18)	(799)	(74)	(12,861)	(13,752)
Write-off	–	1	–	–	1
Exchange adjustments	–	311	47	606	964
At 30 June 2023	<u>(22,432)</u>	<u>(24,247)</u>	<u>(2,692)</u>	<u>(50,656)</u>	<u>(100,027)</u>
Net book value:					
At 30 June 2023	<u>43</u>	<u>3,084</u>	<u>167</u>	<u>35,037</u>	<u>38,331</u>
At 31 December 2022	<u>61</u>	<u>3,276</u>	<u>247</u>	<u>48,106</u>	<u>51,690</u>

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(16) OTHER ASSETS

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Interest receivables (note a)	252,185	211,844
Collaterals placed (note b)	2,586	178,214
Fees receivable	1,361	985
Prepaid expenses	9,083	15,766
Accounts receivable (note c)	180,228	39,366
Others	7,918	7,213
	<u>453,361</u>	<u>453,388</u>

Note a: Included Stage 3 ECL of interest receivable of HK\$62,000 associated with loans and advances to customers and investment securities at stage 3 as at 30 June 2023 (2022: HK\$1,134,000).

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

Note c: Included Stage 1&2 ECL and Stage 3 ECL of accounts receivable of HK\$2,326,000 and HK\$15,872,000 associated with loans and advances to customers and investment securities at Stage 1 & 2 and stage 3 as at 30 June 2023 respectively (2022: HK\$847,000 and HK\$15,427,000).

(17) DEPOSITS FROM CUSTOMERS

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Deposits from customers – time, call and notice deposits	<u>13,700,584</u>	<u>10,560,680</u>

(18) CERTIFICATES OF DEPOSIT AND OTHER DEBT SECURITIES ISSUED

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Certificates of deposits issued at amortised costs	2,557,009	2,494,218
Other debt securities issued at amortised costs (note 21(d))	<u>5,012,956</u>	<u>3,898,561</u>
	<u>7,569,965</u>	<u>6,392,779</u>

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(19) OTHER LIABILITIES

	30 June 2023	31 December 2022
	HK\$'000	HK\$'000
Interest payable	247,547	212,335
Account payable (note a)	3,239	2,804
Accrued expenses	21,163	10,010
Provision for short term employee benefits	12,794	18,032
Collateral received	62,370	–
Others (note b)	129,999	143,350
	<u>477,112</u>	<u>386,531</u>

Note a: Included a balance of HK\$2,000 (2022: HK\$50,000) for the money held on behalf of clients at the segregated bank accounts which are repayable on demand.

Note b: Included allowance for credit and other losses of HK\$11,899,000 (2022: HK\$15,730,000).

(20) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are presented in net when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at 30 June 2023, no derivative financial instruments have fulfilled the above criteria, therefore no derivative financial instruments were offset on the condensed consolidated statement of financial position (2022: Nil).

Derivatives – held for trading

	<u>At 30 June 2023</u>			<u>At 31 December 2022</u>		
	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000
Exchange rate contracts	7,097,547	65,777	3,543	10,057,986	9,242	179,940
Interest rate contracts	235,065	14,976	–	117,143	7,184	–
	<u>7,332,612</u>	<u>80,753</u>	<u>3,543</u>	<u>10,175,129</u>	<u>16,426</u>	<u>179,940</u>

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

(21) NOTES TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Profit/ (loss) before taxation		199,985	(90,392)
Adjustments for:			
Interest income		(782,710)	(432,896)
Interest expense		490,754	162,168
Depreciation of property and equipments	7	891	712
Amortisation of right-of-use assets	7	12,861	12,949
Amortisation of intangible assets	7	739	1,207
Impairment charges	8	148,104	217,239
Net (loss)/income from investment securities		8,091	233,606
Interest received		553,041	220,630
Interest paid		(390,169)	(55,336)
Elimination of exchange differences and other non-cash items		(128,846)	79,866
Operating profit before changes in working capital		112,741	349,753
Changes in financial assets at fair value through profit or loss		(132,045)	87,906
Decrease in client trust bank balances		49	250
Change in gross loans and advances to customers		(3,709,114)	(373,392)
Change in other assets		38,539	(83,544)
Change in deposits from banks		(2,239,202)	3,083,303
Change in deposits from customers		3,139,904	1,362,909
Change in certificates of deposit issued		45,806	(4,042,318)
Change in other liabilities		59,710	(10,003)
Cash generated from operating activities		(2,683,612)	374,864
Tax paid outside Hong Kong		(44,091)	(31,495)
Net cash (outflow)/inflow from operating activities		(2,727,703)	343,369

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

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

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

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Gross cash and balances with banks and central bank (note 11)	818,800	1,610,109
Less: Balances with banks for segregated accounts	(2)	(50)
Gross placements with banks with original maturity within three months	406,500	1,058,961
Investment securities with original maturity within three months	590,002	2,683,352
	<u>1,815,300</u>	<u>5,352,372</u>

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

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Cash and balances with banks and central bank (note 11)	818,800	1,610,109
Gross placements with and advances to banks (note 12)	406,500	1,058,961
Investment securities	11,185,190	12,071,473
	<u>12,410,490</u>	<u>14,740,543</u>
Amounts shown in the condensed consolidated statement of financial position	12,410,490	14,740,543
Less: Balances, gross placements with and advances to banks and investment securities with an original maturity beyond three months	(10,595,188)	(9,388,121)
Less: Balances with banks for segregated accounts	(2)	(50)
	<u>1,815,300</u>	<u>5,352,372</u>

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

(d) Reconciliation of liabilities arising from financing activities:

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

	Other debt securities issued (note 18) \$'000	Short-term borrowings \$'000	Lease Liabilities \$'000	Total \$'000
At 1 January 2022	3,882,979	306,176	72,556	4,261,711
Changes from financing cash flow:				
Net proceeds from short-term borrowings	–	93,407	–	93,407
Capital element of lease rentals paid	–	–	(25,536)	(25,536)
Interest element of lease rentals paid	–	–	(1,307)	(1,307)
Interest paid	(48,951)	(10,716)	–	(59,667)
Total changes from financing cash flow	(48,951)	82,691	(26,843)	6,897
Increase in lease liabilities from entering new lease during the period	–	–	777	777
Decrease in lease liabilities from early termination of lease during the period	–	–	(228)	(228)
Interest expense	57,943	10,716	1,307	69,966
Exchange difference	6,590	–	(64)	6,526
Total other changes	64,533	10,716	1,792	77,041
At 1 January 2023	3,898,561	399,583	47,505	4,345,649
Changes from financing cash flow:				
Proceeds from the issuance of other debt securities	1,096,684	–	–	1,096,684
Net proceeds from short-term borrowings	–	(103,165)	–	(103,165)
Capital element of lease rentals paid	–	–	(12,726)	(12,726)
Interest element of lease rentals paid	–	–	(439)	(439)
Interest paid	(24,908)	(15,800)	–	(40,708)
Total changes from financing cash flow	1,071,776	(118,965)	(13,165)	939,646
Interest expense	29,394	15,800	439	45,633
Exchange difference	13,226	–	(36)	13,190
Total other changes	42,620	15,800	403	58,823
At 30 June 2023	5,012,957	296,418	34,743	5,344,118

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(22) SHARE CAPITAL

	No. of shares '000	HK\$'000
Ordinary shares, issued and fully paid:		
At 30 June 2023	<u>590,987</u>	<u>6,305,476</u>
At 31 December 2022	<u>360,439</u>	<u>4,000,000</u>

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

On 10 January 2023, the Company issued 230,547,550 ordinary shares at HK\$10 each to its immediate and ultimate holding company, Bank of Shanghai Co. Limited.

(23) CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Contract amounts		
– Trade related contingencies	13	–
– Other commitments:		
– which are unconditionally cancellable	4,260,653	5,361,528
– with an original maturity under one year	22,201	–
– with an original maturity over one year	<u>567,989</u>	<u>222,316</u>
	<u>4,850,856</u>	<u>5,583,844</u>
Credit risk-weighted amount	<u>288,438</u>	<u>111,158</u>

The Group was involved in several lawsuits (including arbitrations) during daily operations. As at 30 June 2023, the Group had a total of 3 litigations (including arbitrations) pending for final ruling, of which the Group was the defendant (including respondent) with a total amount of HK\$667 million with each case involving an amount of HK\$10 million or above. These litigations were expected to have no material adverse effect on the Group's financial and operating results. Management believes that adequate provisions have been made in respect of these litigations.

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(24) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

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

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

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

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

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(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The table below analyses financial instruments, measured at fair value as at 30 June 2023 and 31 December 2022, by the level in the fair value hierarchy into which the fair value treatment is categorised.

At 30 June 2023

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	360,907	761,992	1,122,899
Derivative financial assets (note 20)	–	80,753	–	80,753
Investment securities at fair value through other comprehensive income (note 14)	–	7,599,749	–	7,599,749
	<u>–</u>	<u>7,599,749</u>	<u>–</u>	<u>7,599,749</u>
Liabilities				
Derivative financial liabilities (note 20)	–	3,543	–	3,543
	<u>–</u>	<u>3,543</u>	<u>–</u>	<u>3,543</u>

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(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

At 31 December 2022

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	146,635	835,242	981,877
Derivative financial assets (note 20)	–	16,426	–	16,426
Investment securities at fair value through other comprehensive income (note 14)	<u>2,024,301</u>	<u>4,749,279</u>	<u>–</u>	<u>6,773,580</u>
Liabilities				
Derivative financial liabilities (note 20)	<u>–</u>	<u>179,940</u>	<u>–</u>	<u>179,940</u>

During the six months ended 30 June 2023 and the year of 2022, there were no transfers of financial instruments between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

Valuation of financial instruments with significant unobservable inputs

The fair value of financial assets at fair value through profit and loss in Level 3 is determined using the most recent transactions, market comparable investment or discounted cashflow analysis. As at 30 June 2023, it is estimated that with all other variable held constant, an increase/decrease in the price of same products by 5% would have increased/decreased the Group's equity by HK\$33 million (2022: HK\$31 million).

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(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	Assets			Total HK\$'000
	Convertible bonds HK\$'000	Return of beneficial interest HK\$'000	Unlisted equity investments HK\$'000	
At 1 January 2023	219,861	550,121	65,260	835,242
Payment for purchases	–	–	226	226
Disposal/redemption for the products	–	–	(424)	(424)
Net surplus/(deficit) on revaluation	(73,065)	134,299	2,102	63,336
Other changes	(5,678)	(127,854)	(2,856)	(136,388)
At 30 June 2023	<u>141,118</u>	<u>556,566</u>	<u>64,308</u>	<u>761,992</u>
Total gains or losses for the period reclassified from other comprehensive income on disposal	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total gains or losses for the period included in profit or loss for assets held during the reporting period:				
– Other operating income	–	–	28	28
– Net income from financial instruments measured at fair value	<u>(61,404)</u>	<u>152,235</u>	<u>2,102</u>	<u>92,933</u>

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(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Assets			Total HK\$'000
	Convertible bonds HK\$'000	Return of beneficial interest HK\$'000	Unlisted equity investments HK\$'000	
At 1 January 2022	284,241	571,091	36,484	891,816
Payment for purchases	–	142,894	12,489	155,383
Disposal/redemption for the products	(184,535)	(118,234)	–	(302,769)
Other changes	(4,837)	(29,436)	1,624	(32,649)
At 30 June 2022	<u>94,869</u>	<u>566,315</u>	<u>50,597</u>	<u>711,781</u>
Total gains or losses for the period reclassified from other comprehensive income on disposal	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total gains or losses for the period included in profit or loss for assets held during the reporting period: – Net income from financial instruments measured at fair value	<u>9,190</u>	<u>30,547</u>	<u>3,986</u>	<u>43,723</u>

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

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

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(24) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	Carrying amounts at 30 June 2023 HK\$'000	Fair value at 30 June 2023 HK\$'000	Fair value measurements as at 30 June 2023 categorised into		
			Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets					
Investments securities at amortised cost, net of ECL (note 14)	3,066,708	2,755,234	217,851	2,537,383	–
Liabilities					
Other debt securities issued at amortised cost (note 18)	5,012,956	4,991,870	–	3,894,902	1,096,968
	Carrying amounts at 31 December 2022 HK\$'000	Fair value at 31 December 2022 HK\$'000	Fair value measurements as at 31 December 2022 categorised into		
			Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets					
Investments securities at amortised cost, net of ECL (note 14)	2,929,744	2,537,383	–	2,537,383	–
Liabilities					
Other debt securities issued at amortised cost (note 18)	3,898,561	3,797,399	–	3,797,399	–

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(25) MATERIAL RELATED PARTY TRANSACTIONS

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

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

	Immediate and ultimate holding company	
	6 months ended 30 June 2023 HK\$'000	6 months ended 30 June 2022 HK\$'000
Condensed consolidated statement of profit or loss and other comprehensive income:		
Interest income	11	22
Interest expense	(81,705)	(12,436)
Net fee and commission income	1,421	1,368
Net income from investment securities (note a)	–	(229,178)
Other operating expenses	1,434	1,563
	<u> </u>	<u> </u>
	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Condensed consolidated statement of financial position:		
Amounts due from:		
– Cash and balances with banks and central bank	2,821	9,243
– Other assets	1,899	2,911
– Property and equipments	4,174	5,852
Amounts due to:		
– Deposits from banks	2,037,226	3,436,207
– Certificates of deposit and other debt securities issued	1,096,968	–
– Other liabilities	19,494	130,402
– Lease liabilities	4,535	6,287
	<u> </u>	<u> </u>

Note a: The Group disposed investment securities of an nominal amount of US\$40,700,000 to ultimate holding company during 2022. The consideration for the disposal represented the prevailing market price at the time of the disposal.

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

(26) IMMEDIATE AND ULTIMATE HOLDING COMPANY

As at 30 June 2023, the Company's immediate and ultimate holding company is Bank of Shanghai Co., Limited, which is incorporated in the People's Republic of China. Bank of Shanghai Co., Limited produces financial statements available for public access.