

星展銀行（香港）有限公司  
**DBS BANK (HONG KONG) LIMITED**  
(Incorporated in Hong Kong with limited liability)

**GROUP INTERIM FINANCIAL DISCLOSURE STATEMENTS  
FOR THE SIX MONTHS ENDED  
30TH JUNE 2009**

# DBS BANK (HONG KONG) LIMITED

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## DBS BANK (HONG KONG) LIMITED

The Directors of DBS Bank (Hong Kong) Limited (the “Bank”) are pleased to announce the unaudited consolidated interim results of the Bank and its subsidiaries (the “Group”) for the six months ended 30th June 2009 as follows:

### UNAUDITED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
	Note	30th June 2009 HK\$'000	30th June 2008 HK\$'000
Interest income	2	<b>3,012,275</b>	4,442,901
Interest expense	3	<b>(808,313)</b>	(2,195,231)
Net interest income		<b>2,203,962</b>	2,247,670
Net fee and commission income	4	<b>483,526</b>	722,745
Net income from financial instruments at fair value through profit or loss	5	<b>354,575</b>	432,403
Net gain on disposal of available-for-sale financial investments		<b>46,026</b>	218,816
Other income	6	<b>45,754</b>	189,030
Total income		<b>3,133,843</b>	3,810,664
Total expenses	7	<b>(1,373,393)</b>	(1,704,308)
Profit before impairment allowances for credit losses		<b>1,760,450</b>	2,106,356
Impairment allowances for credit losses	8	<b>(653,322)</b>	(60,963)
Profit before income tax		<b>1,107,128</b>	2,045,393
Income tax expense	9	<b>(185,981)</b>	(269,211)
Profit attributable to shareholders		<b>921,147</b>	1,776,182
Dividend		<b>—</b>	3,400,000

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30th June 2009	30th June 2008
	HK\$'000	HK\$'000
<b>Profit attributable to shareholders</b>	<b>921,147</b>	<b>1,776,182</b>
<b>Other comprehensive income:</b>		
Foreign currency translation differences for foreign operations	(174)	(9)
Available-for-sale financial investments:		
– Net valuation taken to equity	439,842	124,206
– Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	8,219	–
– Transferred to income statement on sale	(45,649)	(74,145)
– Tax on items taken directly to or transferred from equity	(69,693)	25,921
Transfer of lease premium for land to investment properties:		
– Valuation taken to equity	400,861	–
– Tax on items taken directly to or transferred from equity	(66,142)	–
<b>Other comprehensive income attributable to shareholders, net of tax</b>	<b>667,264</b>	<b>75,973</b>
<b>Total comprehensive income attributable to shareholders</b>	<b>1,588,411</b>	<b>1,852,155</b>

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED CONSOLIDATED BALANCE SHEET

	Note	As at 30th June 2009 HK\$'000	As at 31st December 2008 HK\$'000
<b>Assets</b>			
Cash and balances with banks	10	24,593,798	21,719,787
Placements with and advances to banks	11	29,932,492	17,124,092
Trading securities		2,280,271	3,039,097
Financial assets designated at fair value through profit or loss		35,677	25,054
Positive replacement values for derivative financial instruments		3,953,112	2,505,551
Advances to customers less impairment allowances	12	125,963,174	132,384,605
Financial investments	13	37,455,146	33,569,441
Other assets		3,792,585	3,408,453
Deferred income tax assets		–	138,597
Fixed assets	14(a)	1,677,795	1,178,454
– Investment properties		685,939	138,200
– Other properties and equipment		991,856	1,040,254
Lease premium for land	14(b)	1,809,757	1,936,861
Total assets		<u>231,493,807</u>	<u>217,029,992</u>
<b>Liabilities</b>			
Deposits and balances from banks		3,937,959	1,028,875
Trading liabilities		2,156,091	2,926,871
Financial liabilities designated at fair value through profit or loss	15	2,037,124	4,492,998
Negative replacement values for derivative financial instruments		4,678,706	3,620,044
Deposits from customers	16	187,062,765	176,896,443
Certificates of deposit issued	17	1,748,541	1,838,648
Other liabilities		5,737,605	5,670,462
Current income tax liabilities		191,773	24,578
Deferred income tax liabilities		14,924	–
Amount due to a jointly controlled entity		817,011	808,203
Subordinated liability	18	4,185,054	4,185,027
Total liabilities		<u>212,567,553</u>	<u>201,492,149</u>
<b>Equity</b>			
Share capital		7,000,000	5,200,000
Reserves		11,926,254	10,337,843
Total equity		<u>18,926,254</u>	<u>15,537,843</u>
Total liabilities and equity		<u>231,493,807</u>	<u>217,029,992</u>

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Revaluation reserves HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
Balance as at 1st January 2008	5,200,000	595,503	11,636	(70,745)	2,398,792	(307)	9,348,673	17,483,552
Dividend	-	-	-	-	-	-	(3,400,000)	(3,400,000)
Total comprehensive income	-	-	-	75,982	-	(9)	1,776,182	1,852,155
Balance as at 30th June 2008	5,200,000	595,503	11,636	5,237	2,398,792	(316)	7,724,855	15,935,707
Unclaimed dividend forfeited	-	-	-	-	-	-	55	55
Total comprehensive income	-	-	-	(451,066)	-	448	52,699	(397,919)
Balance as at 31st December 2008	5,200,000	595,503	11,636	(445,829)	2,398,792	132	7,777,609	15,537,843
Issue of shares	1,800,000	-	-	-	-	-	-	1,800,000
Total comprehensive income	-	-	-	667,438	-	(174)	921,147	1,588,411
Balance as at 30th June 2009	<u>7,000,000</u>	<u>595,503</u>	<u>11,636</u>	<u>221,609</u>	<u>2,398,792</u>	<u>(42)</u>	<u>8,698,756</u>	<u>18,926,254</u>

As at 30th June 2009, HK\$495,641,000 (31st December 2008: HK\$416,822,000) was earmarked as the regulatory reserve from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

A members' resolution was passed on 8th January 2009 to increase the Bank's authorised share capital from HK\$5,200,000,000 to HK\$12,000,000,000 by the creation of an additional 6,800,000,000 ordinary shares of HK\$1 each, ranking pari passu with the existing ordinary shares of the Bank in all respects. Pursuant to the allotment mandate granted by the members, a board resolution was passed on 8th January 2009 to approve an allotment of 1,800,000,000 shares of HK\$1 each at par to its immediate holding company, DHB Limited. The 1,800,000,000 shares were issued and allotted on 20th January 2009 and the issued and paid up share capital of the Bank was increased from HK\$5,200,000,000 to HK\$7,000,000,000.

## **DBS BANK (HONG KONG) LIMITED**

### **REVIEW OF ACTIVITIES**

With the economic environment remaining uncertain, operating conditions continue to be challenging. During the period, the Bank's profit attributable to shareholders decreased by 48.1% from the same period last year to HK\$921 million, return on average total assets of 0.8% and return on average shareholders' funds of 10.5% were recorded.

Total income decreased by 17.8% to HK\$3,134 million. Net interest income decreased by 1.9% to HK\$2,204 million, while net interest margin dropped by 4 basis points to 2.08%. Non-interest income decreased by 40.5% to HK\$930 million. Total expenses dropped by 19.4% to HK\$1,373 million, with staff costs decreased by 22.0% and non-staff costs dropped by 16.4%. The cost-to-income ratio decreased to 43.8% compared to 44.7% in the first half of 2008, reflected the Bank's ongoing efforts to improve productivity yielded cost savings. With weaker economy, impairment allowances rose from HK\$61 million in the first half of 2008 to HK\$653 million.

Gross advances to customers decreased 4.4% from December 2008 to HK\$129 billion. Customer deposits increased 4.4% from December 2008 to HK\$189 billion. The loan-to-deposit ratio decreased to 66.6% from 73.1% in December 2008.

The Bank's financial position remains good. Capital adequacy ratio stood at a comfortable level of 14.5% as at 30th June 2009. Average liquidity ratio was 33.7% for the first half of 2009, compared to 32.9% for the first half of 2008.

# **DBS BANK (HONG KONG) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 Scope of consolidation**

The consolidated financial statements incorporate the financial statements of DBS Bank (Hong Kong) Limited (the “Bank”) and all its subsidiaries (the “Group”).

For regulatory reporting purposes, the Bank is required to compute its capital adequacy ratio on a combined basis that is different from the basis of consolidation for accounting purposes. The basis is set out in Note 21.

### **2 Interest income**

Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK\$2,981,361,000 (first half of 2008: HK\$4,370,566,000).

### **3 Interest expense**

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK\$789,294,000 (first half of 2008: HK\$2,131,250,000).



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4 Net fee and commission income

	<b>For the six months ended</b>	
	<b>30th June 2009</b>	As restated 30th June 2008
	<b>HK\$'000</b>	HK\$'000
Fee and commission income (Note)	<b>678,903</b>	900,430
Fee and commission expense (Note)	<b>(195,377)</b>	(177,685)
<b>Net fee and commission income</b>	<b><u>483,526</u></b>	<b><u>722,745</u></b>
Comprising:		
– Wealth management	<b>78,466</b>	232,984
– Trade and remittances	<b>163,506</b>	191,867
– Credit card	<b>94,690</b>	107,391
– Loan-related	<b>70,480</b>	88,405
– Stock broking	<b>21,810</b>	34,882
– Deposit-related	<b>13,537</b>	15,458
– Investment banking	<b>7,406</b>	9,977
– Guarantees	<b>5,791</b>	7,083
– Others	<b>27,840</b>	34,698
	<b><u>483,526</u></b>	<b><u>722,745</u></b>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	<b>366,062</b>	379,297
– Trust or other fiduciary activities	<b>14,683</b>	16,529
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	<b>187,355</b>	168,055

#### Note:

The fee and commission income and expense have been restated to comply with the requirements of HK(IFRIC)-Int 13 Customer Loyalty Programmes which were effective for financial periods beginning on or after 1st July 2008.

The interpretation clarifies that when an entity provides customers with the award credits to buy goods or services under a customer loyalty programme, the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale or service. Previously, the award credits granted to the customers were recorded as fee and commission expense in the initial sale. Upon adoption of HK(IFRIC)-Int 13, the award credits granted to the customers are deferred and recognised as fee and commission income only when the entity has fulfilled the obligations to provide goods or services.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5 Net income from financial instruments at fair value through profit or loss

	For the six months ended	
	30th June 2009	30th June 2008
	HK\$'000	HK\$'000
Net trading income		
– Foreign exchange	310,047	476,319
– Interest rates, credit and equities	464,981	(254,754)
	<u>775,028</u>	<u>221,565</u>
Net (loss)/gain from financial instruments designated at fair value through profit or loss	<u>(420,453)</u>	<u>210,838</u>
	<u><u>354,575</u></u>	<u><u>432,403</u></u>

### 6 Other income

	For the six months ended	
	30th June 2009	30th June 2008
	HK\$'000	HK\$'000
Net gain on disposal of fixed assets and lease premium for land	259	149,401
Dividend income from listed investments	381	1,671
Dividend income from unlisted investments	10,277	10,243
Others	34,837	27,715
	<u>45,754</u>	<u>189,030</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7 Total expenses

	For the six months ended	
	30th June 2009	30th June 2008
	HK\$'000	HK\$'000
Employee benefits		
– Salaries and other short term employee benefits	675,129	865,606
– Pensions	35,095	40,891
– Share based payments	8,242	14,056
Premises and equipment expenses excluding depreciation		
– Amortisation of lease premium for land	23,203	23,694
– Rental of premises	111,642	98,342
– Others	113,419	121,403
Depreciation	85,288	83,953
Auditor's remuneration	3,642	4,576
Computerisation expenses	110,667	144,043
Other operating expenses	207,066	307,744
	<u>1,373,393</u>	<u>1,704,308</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8 Impairment allowances for credit losses

	<b>For the six months ended</b>	
	<b>30th June 2009</b>	30th June 2008
	<b>HK\$'000</b>	HK\$'000
Impairment allowances for credit losses		
– Individual impairment allowances on advances to customers	<b>689,193</b>	163,200
– Collective impairment allowances on advances to customers	<b>(35,190)</b>	(102,237)
– Impairment allowances on available-for-sale financial investments	<b>(681)</b>	–
	<u><b>653,322</b></u>	<u>60,963</u>
Individual impairment allowances on advances to customers		
– New allowances	<b>886,743</b>	260,526
– Releases	<b>(188,913)</b>	(86,245)
– Recoveries	<b>(8,637)</b>	(11,081)
	<u><b>689,193</b></u>	<u>163,200</u>
Collective impairment allowances on advances to customers		
– New allowances	<b>142,012</b>	106,213
– Releases	<b>(163,345)</b>	(189,947)
– Recoveries	<b>(13,857)</b>	(18,503)
	<u><b>(35,190)</b></u>	<u>(102,237)</u>
Impairment allowances on available-for-sale financial investments		
– Releases	<u><b>(681)</b></u>	<u>–</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9 Income tax expense

	For the six months ended	
	30th June 2009	30th June 2008
	HK\$'000	HK\$'000
Hong Kong profits tax	165,321	226,295
Overseas tax	2,974	4,813
	<hr/>	<hr/>
Current income tax	168,295	231,108
Deferred income tax	17,686	38,103
	<hr/>	<hr/>
	<b>185,981</b>	<b>269,211</b>
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Hong Kong profits tax has been provided at 16.5% (first half of 2008: 16.5%) on the estimated assessable profits for the period. Taxation for overseas subsidiaries and branch are charged at the appropriate current rates of taxation ruling in the countries in which they operate.

### 10 Cash and balances with banks

	As at	As at
	30th June	31st December
	2009	2008
	HK\$'000	HK\$'000
Cash in hand	417,689	504,056
Balances with central banks	143,518	227,365
Balances with banks	20,882,807	18,437,962
Trade bills	3,149,784	2,550,404
	<hr/>	<hr/>
	<b>24,593,798</b>	<b>21,719,787</b>
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# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11 Placements with and advances to banks

	<b>As at 30th June 2009 HK\$'000</b>	<b>As at 31st December 2008 HK\$'000</b>
Remaining maturity:		
– One year or less but over one month	<b>27,977,227</b>	14,858,832
– Over one year	<b>1,955,265</b>	2,265,260
	<b><u>29,932,492</u></b>	<b><u>17,124,092</u></b>

As at 30th June 2009, there were no impaired, overdue and rescheduled placements with and advances to banks (31st December 2008: Nil).

### 12 Advances to customers less impairment allowances

	<b>As at 30th June 2009 HK\$'000</b>	<b>As at 31st December 2008 HK\$'000</b>
Advances to customers	<b>129,066,616</b>	135,007,041
Impairment allowances		
– Collectively assessed	<b>(824,413)</b>	(958,586)
– Individually assessed	<b>(2,279,029)</b>	(1,663,850)
	<b><u>125,963,174</u></b>	<b><u>132,384,605</u></b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12 Advances to customers less impairment allowances (continued)

#### Impaired advances

	As at 30th June 2009		As at 31st December 2008	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Gross impaired advances	4,018,138	3.11	2,990,588	2.22
Individual impairment allowances	<u>(2,279,029)</u>		<u>(1,663,850)</u>	
	<u>1,739,109</u>		<u>1,326,738</u>	
Impaired advances covered by collateral	<u>1,590,264</u>		<u>1,142,021</u>	

Impaired advances to customers are individually assessed customer advances with objective evidence of impairment on an individual basis.

The individual impairment allowances were made after taking into account the value of collateral in respect of the above advances.

### 13 Financial investments

	As at 30th June 2009	As at 31st December 2008
	HK\$'000	HK\$'000
Available-for-sale	31,696,475	27,768,497
Loans and receivables	<u>5,758,671</u>	<u>5,800,944</u>
	<u>37,455,146</u>	<u>33,569,441</u>

As at 30th June 2009, the carrying amount of the impaired available-for-sale financial investments was HK\$868,000 (31st December 2008: HK\$198,000).

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14 Fixed assets and lease premium for land

#### (a) Fixed assets

	Freehold properties HK\$'000	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1st January 2009	22,967	645,022	961,522	1,629,511	138,200	1,767,711
Additions	–	1,387	101,566	102,953	–	102,953
Disposals	–	(9,496)	(28,203)	(37,699)	–	(37,699)
Elimination of accumulated depreciation upon transfer to investment properties	–	(53,883)	–	(53,883)	–	(53,883)
Transfer from buildings to investment properties	–	(42,977)	–	(42,977)	42,977	–
Transfer from lease premium for land to investment properties (Note 14(b))	–	–	–	–	504,762	504,762
As at 30th June 2009	<u>22,967</u>	<u>540,053</u>	<u>1,034,885</u>	<u>1,597,905</u>	<u>685,939</u>	<u>2,283,844</u>
Accumulated depreciation and impairment						
As at 1st January 2009	16,710	255,702	316,845	589,257	–	589,257
Charge for the period	46	13,141	72,101	85,288	–	85,288
Disposals	–	(8,150)	(6,463)	(14,613)	–	(14,613)
Elimination of accumulated depreciation upon transfer to investment properties	–	(53,883)	–	(53,883)	–	(53,883)
As at 30th June 2009	<u>16,756</u>	<u>206,810</u>	<u>382,483</u>	<u>606,049</u>	<u>–</u>	<u>606,049</u>
Net book value						
As at 30th June 2009	<u>6,211</u>	<u>333,243</u>	<u>652,402</u>	<u>991,856</u>	<u>685,939</u>	<u>1,677,795</u>
The analysis of cost or valuation of the above assets as at 30th June 2009 is as follows:						
At cost	22,967	540,053	1,034,885	1,597,905	–	1,597,905
At valuation	–	–	–	–	685,939	685,939
	<u>22,967</u>	<u>540,053</u>	<u>1,034,885</u>	<u>1,597,905</u>	<u>685,939</u>	<u>2,283,844</u>



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14 Fixed assets and lease premium for land (continued)

#### (a) Fixed assets (continued)

	Freehold properties HK\$'000	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1st January 2008	23,413	717,613	1,220,520	1,961,546	145,000	2,106,546
Additions	–	5,606	295,706	301,312	–	301,312
Disposals	(446)	(78,197)	(554,704)	(633,347)	–	(633,347)
Fair value adjustment	–	–	–	–	(6,800)	(6,800)
As at 31st December 2008	<u>22,967</u>	<u>645,022</u>	<u>961,522</u>	<u>1,629,511</u>	<u>138,200</u>	<u>1,767,711</u>
Accumulated depreciation and impairment						
As at 1st January 2008	17,044	299,785	589,229	906,058	–	906,058
Charge for the year	96	32,379	127,323	159,798	–	159,798
Disposals	(430)	(76,462)	(399,707)	(476,599)	–	(476,599)
As at 31st December 2008	<u>16,710</u>	<u>255,702</u>	<u>316,845</u>	<u>589,257</u>	<u>–</u>	<u>589,257</u>
Net book value						
As at 31st December 2008	<u>6,257</u>	<u>389,320</u>	<u>644,677</u>	<u>1,040,254</u>	<u>138,200</u>	<u>1,178,454</u>
The analysis of cost or valuation of the above assets as at 31st December 2008 is as follows:						
At cost	22,967	645,022	961,522	1,629,511	–	1,629,511
At valuation	–	–	–	–	138,200	138,200
	<u>22,967</u>	<u>645,022</u>	<u>961,522</u>	<u>1,629,511</u>	<u>138,200</u>	<u>1,767,711</u>

#### (b) Lease premium for land

	2009 HK\$'000	2008 HK\$'000
Net book value as at 1st January	1,936,861	2,032,933
Disposals	–	(52,627)
Amortisation	(23,203)	(43,445)
Surplus on revaluation of land upon transfer to investment properties	400,861	–
Transferred to investment properties (Note 14(a))	(504,762)	–
Net book value as at 30th June 2009 and 31st December 2008	<u>1,809,757</u>	<u>1,936,861</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15 Financial liabilities designated at fair value through profit or loss

	<b>As at 30th June 2009 HK\$'000</b>	As at 31st December 2008 HK\$'000
Financial liabilities designated at fair value through profit or loss		
– Structured investment deposits (Note 16)	<b>2,037,124</b>	4,190,380
– Certificates of deposit issued (Note 17)	–	302,618
	<b><u>2,037,124</u></b>	<b><u>4,492,998</u></b>

### 16 Deposits from customers

	<b>As at 30th June 2009 HK\$'000</b>	As at 31st December 2008 HK\$'000
Deposits from customers		
– As stated in the balance sheet	<b>187,062,765</b>	176,896,443
– Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 15)	<b>2,037,124</b>	4,190,380
	<b><u>189,099,889</u></b>	<b><u>181,086,823</u></b>
Analysed by:		
– Demand deposits and current accounts	<b>14,962,889</b>	11,646,608
– Savings deposits	<b>58,452,378</b>	43,250,773
– Time, call and notice deposits	<b>115,684,622</b>	126,189,442
	<b><u>189,099,889</u></b>	<b><u>181,086,823</u></b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17 Certificates of deposit issued

	<b>As at 30th June 2009 HK\$'000</b>	<b>As at 31st December 2008 HK\$'000</b>
Certificates of deposit issued		
– At amortised cost	<b>499,269</b>	505,720
– At fair value under fair value hedge	<b>1,249,272</b>	1,332,928
	<hr/>	<hr/>
As stated in the balance sheet	<b>1,748,541</b>	1,838,648
Reported as financial liabilities designated at fair value through profit or loss (Note 15)	–	302,618
	<hr/>	<hr/>
	<b><u>1,748,541</u></b>	<b><u>2,141,266</u></b>

### 18 Subordinated liability

The subordinated loan (“Loan”) with principal amount of US\$540,000,000 was obtained by the Bank from its intermediate holding company, DBS Bank Ltd., on 12th December 2006. The Loan will mature on 12th December 2016 with an optional repayment date on 13th December 2011. Interest is payable quarterly and is charged at USD 3-month LIBOR plus 0.35% per annum before the optional repayment date and subsequently at USD 3-month LIBOR plus 0.85%.

**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**19 Derivative financial instruments**

The following is a summary of each significant type of derivative financial instruments:

**As at 30th June 2009**

<b>Derivatives held for trading</b>	<b>Contract/ notional amounts HK\$'000</b>	<b>Credit risk- weighted amounts HK\$'000</b>	<b>Fair value assets HK\$'000</b>	<b>Fair value liabilities HK\$'000</b>
Exchange rate contracts				
– Forwards	64,918,264	1,082,051	1,554,198	1,530,265
– Swaps	46,045,226	80,521	144,897	73,332
– Options purchased	79,155,374	2,286,312	1,276,133	–
– Options written	79,025,659	–	–	1,272,094
	<u>269,144,523</u>	<u>3,448,884</u>	<u>2,975,228</u>	<u>2,875,691</u>
Interest rate contracts				
– Futures	7,813,000	–	4,266	2,398
– Swaps	58,193,183	315,026	882,339	795,861
– Options purchased	510,126	712	2,473	–
– Options written	510,126	–	–	2,473
	<u>67,026,435</u>	<u>315,738</u>	<u>889,078</u>	<u>800,732</u>
Equity contracts	<u>6,005,682</u>	<u>40,294</u>	<u>681,778</u>	<u>681,776</u>
Credit derivative contracts	<u>775,010</u>	<u>–</u>	<u>–</u>	<u>46,968</u>
Total derivatives held for trading	<u>342,951,650</u>	<u>3,804,916</u>	<u>4,546,084</u>	<u>4,405,167</u>
<b>Derivatives designated and qualified as fair value hedges</b>				
Interest rate contracts				
– Swaps	<u>4,664,689</u>	<u>22,136</u>	<u>69,579</u>	<u>275,810</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 19 Derivative financial instruments (continued)

As as 31st December 2008

Derivatives held for trading	Contract/ notional amounts HK\$'000	Credit risk- weighted amounts HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
Exchange rate contracts				
– Forwards	74,550,994	532,755	333,554	270,547
– Swaps	65,805,627	196,195	351,564	243,703
– Options purchased	109,887,175	1,422,476	496,069	–
– Options written	109,528,812	–	–	494,524
	<u>359,772,608</u>	<u>2,151,426</u>	<u>1,181,187</u>	<u>1,008,774</u>
Interest rate contracts				
– Futures	2,173,863	–	4,264	8,423
– Swaps	61,075,909	397,421	1,114,496	1,088,344
– Options purchased	748,869	687	10,002	–
– Options written	748,869	–	–	10,002
	<u>64,747,510</u>	<u>398,108</u>	<u>1,128,762</u>	<u>1,106,769</u>
Equity contracts	<u>7,992,236</u>	<u>142,239</u>	<u>1,175,565</u>	<u>1,175,565</u>
Credit derivative contracts	<u>852,505</u>	<u>–</u>	<u>16,382</u>	<u>4,495</u>
Total derivatives held for trading	<u>433,364,859</u>	<u>2,691,773</u>	<u>3,501,896</u>	<u>3,295,603</u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u>4,336,213</u>	<u>34,914</u>	<u>130,140</u>	<u>383,492</u>

The above tables include derivatives and embedded derivatives. The amounts are shown on a gross basis and do not take into account the effect of bilateral netting arrangements. The fair value assets and fair value liabilities of embedded derivatives included in above amounted to HK\$662,551,000 and HK\$2,271,000 respectively (31st December 2008: HK\$1,126,485,000 and HK\$59,051,000 respectively).

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk. The credit risk-weighted amounts have been calculated in accordance with the Banking (Capital) Rules.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20 Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	<b>As at 30th June 2009 HK\$'000</b>	As at 31st December 2008 HK\$'000
Direct credit substitutes	<b>1,088,949</b>	1,193,846
Transaction-related contingencies	<b>745,174</b>	776,339
Trade-related contingencies	<b>5,831,800</b>	5,093,182
Forward forward deposits placed	<b>13,560,000</b>	12,941,296
Other commitments with an original maturity of not more than one year	<b>2,407,123</b>	1,460,137
Other commitments with an original maturity of more than one year	<b>394,050</b>	60,262
Other commitments which are unconditionally cancellable	<b>102,621,687</b>	94,494,846
	<b><u>126,648,783</u></b>	<b><u>116,019,908</u></b>
Credit risk-weighted amount	<b><u>8,310,483</u></b>	<b><u>4,846,801</u></b>

### 21 Capital structure and adequacy

The Bank is required to compute its capital adequacy ratio on a combined basis that includes the Bank and its overseas branch. The investments in subsidiaries are deducted from the Bank's core capital and supplementary capital.

The capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance.

In 2009, the Bank has adopted the Foundation Internal Ratings-Based ("IRB") approach for the calculation of the risk-weighted assets for credit risk. In 2008, the Bank has adopted the Basic ("BSC") approach for the calculation of the risk-weighted assets for credit risk. During the years of 2008 and 2009, the Bank has adopted the Standardised approach for the calculation of risk-weighted assets for operational risk and market risk. As there are significant differences between BSC approach and Foundation IRB approach, the capital adequacy ratios as at 30th June 2009 and 31st December 2008 are not directly comparable.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21 Capital structure and adequacy (continued)

The following table sets forth details of capital resources and capital adequacy ratios for the Bank:

	As at 30th June 2009 HK\$'000	As at 31st December 2008 HK\$'000
Core capital		
Paid up ordinary share capital	7,000,000	5,200,000
Share premium	595,503	595,503
Reserves (eligible for inclusion in core capital)	9,076,978	7,572,039
Profit and loss account	907,851	1,805,439
Deduct:		
Deferred tax assets	—	(139,328)
	<u>17,580,332</u>	<u>15,033,653</u>
Deductions from core capital	<u>(340,325)</u>	<u>(95,183)</u>
Core capital after deductions	<u>17,240,007</u>	<u>14,938,470</u>
Supplementary capital		
Reserve on revaluation of holding of land and buildings	243,281	62,893
Reserve on revaluation of holding of securities not held for trading purposes	—	(539,178)
Collective impairment allowances	129,350	934,954
Regulatory reserve	80,237	416,822
Term subordinated liability	4,185,054	4,185,027
	<u>4,637,922</u>	<u>5,060,518</u>
Deductions from supplementary capital	<u>(340,326)</u>	<u>(95,183)</u>
Supplementary capital after deductions	<u>4,297,596</u>	<u>4,965,335</u>
Total capital base before deductions	22,218,254	20,094,171
Deductions from core capital and supplementary capital	<u>(680,651)</u>	<u>(190,366)</u>
Total capital base after deductions	<u>21,537,603</u>	<u>19,903,805</u>
Risk-weighted assets	<u>148,091,808</u>	<u>152,410,438</u>
Capital adequacy ratio		
Core capital ratio	11.6%	9.8%
Supplementary capital ratio	2.9%	3.3%
Total capital adequacy ratio	<u>14.5%</u>	<u>13.1%</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 22 Cross-border claims

Analysis of the Group's cross-border claims by location and by type of counterparty is as follows:

HK\$' million	Banks	Public sector entities	Others	Total
<b>As at 30th June 2009</b>				
Asia Pacific excluding Hong Kong	65,102	671	5,607	71,380
North and South America	4,978	1,324	613	6,915
Europe	8,202	5	409	8,616
Others	209	74	832	1,115
	<u>78,491</u>	<u>2,074</u>	<u>7,461</u>	<u>88,026</u>
<b>As at 31st December 2008</b>				
Asia Pacific excluding Hong Kong	47,919	768	6,070	54,757
North and South America	5,295	897	629	6,821
Europe	6,266	4	542	6,812
Others	223	75	902	1,200
	<u>59,703</u>	<u>1,744</u>	<u>8,143</u>	<u>69,590</u>

The above analysis by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies if the claim is guaranteed by a party in a country which is different from that of the counterparty.



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 23 Advances to customers

The Group employs a range of policies and practices to mitigate credit risk, one of which is the taking of collateral. The collateral includes cash, marketable securities, properties, trade receivables, inventory, equipment and other physical and financial collateral.

#### (a) Advances to customers by loan usage

The analysis of the Bank's gross advances to customers by loan usage and the corresponding balances covered by collateral are as follows:

	As at 30th June 2009		As at 31st December 2008	
	Outstanding balances HK\$'000	Balances covered by collateral HK\$'000	Outstanding balances HK\$'000	Balances covered by collateral HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	1,092,882	1,089,142	902,072	896,596
– Property investment	24,347,615	23,527,122	25,620,903	24,971,374
– Financial concerns	623,816	439,481	596,693	420,307
– Stockbrokers	240,001	39,500	24,314	22,514
– Wholesale and retail trade	3,062,080	2,510,607	3,404,739	2,491,595
– Manufacturing	9,383,342	5,566,459	9,224,981	5,067,768
– Transport and transport equipment	11,094,098	10,842,837	11,573,354	10,915,306
– Recreational activities	2,000	1,400	188	188
– Information technology	117,194	73,604	125,419	106,444
– Others	4,511,039	3,538,559	4,775,759	3,696,116
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	1,471,622	1,471,622	1,606,199	1,606,199
– Loans for the purchase of other residential properties	36,238,452	36,215,425	35,463,910	35,430,996
– Credit card advances	4,857,618	–	5,112,615	–
– Others	6,376,514	3,114,065	6,310,215	2,898,152
	<u>103,418,273</u>	<u>88,429,823</u>	<u>104,741,361</u>	<u>88,523,555</u>
Trade finance	21,021,423	12,549,136	24,411,494	14,152,766
Loans for use outside Hong Kong	<u>4,626,920</u>	<u>3,879,726</u>	<u>5,854,186</u>	<u>4,598,518</u>
	<u><u>129,066,616</u></u>	<u><u>104,858,685</u></u>	<u><u>135,007,041</u></u>	<u><u>107,274,839</u></u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 23 Advances to customers (continued)

#### (a) Advances to customers by loan usage (continued)

Analysis of impaired advances, individual and collective impairment allowances for the individual loan usage category which accounted for 10% or more of the Bank's advances to customers:

	Impaired advances to customers HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
<b>As at 30th June 2009</b>			
Property investment	706,394	69,287	163,355
Loans for the purchase of other residential properties	81,530	2,900	10,307
Trade finance	1,374,445	969,465	234,132
<b>As at 31st December 2008</b>			
Property investment	178,172	22,482	145,434
Loans for the purchase of other residential properties	83,147	2,972	11,594
Trade finance	544,819	322,967	326,710

#### (b) By geographical area

Over 90% of the Bank's gross advances to customers and the related impaired advances, overdue advances, individual impairment allowances and collective impairment allowances are located in Hong Kong after taking into account the transfer of risk. In general, transfer of risk applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24 Overdue and rescheduled advances

#### (a) Overdue advances to customers

The overdue advances of the Bank are analysed as follows:

	As at 30th June 2009		As at 31st December 2008	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Six months or less but over three months	864,908	0.67	508,450	0.38
One year or less but over six months	1,081,622	0.84	580,119	0.43
Over one year	1,049,854	0.81	753,987	0.56
	<u>2,996,384</u>	<u>2.32</u>	<u>1,842,556</u>	<u>1.37</u>
Individual impairment allowances made in respect of the above overdue advances	<u>1,848,233</u>		<u>1,130,549</u>	
Current market value of collateral held against the covered portion of the above overdue advances	<u>1,782,535</u>		<u>1,290,634</u>	
Covered portion of the above overdue advances	<u>1,142,498</u>		<u>741,876</u>	
Uncovered portion of the above overdue advances	<u>1,853,886</u>		<u>1,100,680</u>	

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24 Overdue and rescheduled advances (continued)

#### (b) Rescheduled advances

The rescheduled advances of the Bank (net of those which have been overdue for over three months and reported in item (a) above) are analysed as follows:

	As at 30th June 2009		As at 31st December 2008	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Rescheduled advances	<u>330,346</u>	0.26	<u>277,743</u>	0.21

#### (c) Repossessed assets

As at 30th June 2009, repossessed assets of the Bank amounted to HK\$145,391,000 (31st December 2008: HK\$256,644,000).

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25 Non-bank Mainland exposures

Analysis of the Bank's non-bank Mainland exposures is as follows:

	On-balance sheet exposures HK\$'000	Off-balance sheet exposures HK\$'000	Total HK\$'000	Individual impairment allowances HK\$'000
<b>As at 30th June 2009</b>				
Mainland entities	167,173	23,350	190,523	20,576
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,118,597	1,276,132	5,394,729	385,115
Other counterparties where the exposures are considered to be non-bank Mainland exposures	<u>109,900</u>	<u>19,679</u>	<u>129,579</u>	<u>–</u>
	<u><b>4,395,670</b></u>	<u><b>1,319,161</b></u>	<u><b>5,714,831</b></u>	<u><b>405,691</b></u>
<b>As at 31st December 2008</b>				
Mainland entities	191,824	24,152	215,976	20,433
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,713,578	1,227,328	6,940,906	409,802
Other counterparties where the exposures are considered to be non-bank Mainland exposures	<u>117,800</u>	<u>26,084</u>	<u>143,884</u>	<u>–</u>
	<u><b>6,023,202</b></u>	<u><b>1,277,564</b></u>	<u><b>7,300,766</b></u>	<u><b>430,235</b></u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26 Currency concentrations

The table below summarises the Group's assets and liabilities at carrying amounts, categorised by currency:

HK\$' million	USD	Others	Total
<b>As at 30th June 2009</b>			
<b>Hong Kong dollar equivalents</b>			
Spot assets	57,598	16,839	74,437
Spot liabilities	(51,224)	(23,735)	(74,959)
Forward purchases	50,990	25,734	76,724
Forward sales	(55,946)	(18,554)	(74,500)
Net options position	143	(183)	(40)
	<u>1,561</u>	<u>101</u>	<u>1,662</u>
Net long non-structural position	<u>1,561</u>	<u>101</u>	<u>1,662</u>
Net structural position	<u>–</u>	<u>(58)</u>	<u>(58)</u>
<b>As at 31st December 2008</b>			
<b>Hong Kong dollar equivalents</b>			
Spot assets	57,475	14,636	72,111
Spot liabilities	(47,328)	(22,428)	(69,756)
Forward purchases	63,744	16,699	80,443
Forward sales	(73,126)	(9,026)	(82,152)
Net options position	(2)	3	1
	<u>763</u>	<u>(116)</u>	<u>647</u>
Net long / (short) non-structural position	<u>763</u>	<u>(116)</u>	<u>647</u>
Net structural position	<u>–</u>	<u>(31)</u>	<u>(31)</u>

The net structural position as at 30th June 2009 comprised the Group's unremitted earnings of HK\$86,000,000 equivalent (31st December 2008: HK\$59,000,000) from a Macau Pataca (MOP) investment in Macau, and Renminbi investments of HK\$28,000,000 equivalent (31st December 2008: HK\$28,000,000) in the Mainland China.

The net options position is calculated based on the delta-weighted position as set out in the prudential return "Foreign Currency Position" issued by the Hong Kong Monetary Authority.

## DBS BANK (HONG KONG) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 27 Liquidity ratio

The average liquidity ratio for the period, calculated in accordance with the Fourth Schedule of the Banking Ordinance, is as follows:

	<b>For the six months ended</b>	
	<b>30th June 2009</b>	30th June 2008
Average liquidity ratio for the period	<u><b>33.7%</b></u>	<u>32.9%</u>

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio for the relevant period of the Hong Kong office of the Bank.

#### 28 Comparative figures

Certain comparative figures have been reclassified to conform with the financial statements presentation adopted in the current period.

Hong Kong, 31st July 2009