

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
30 JUNE 2010**

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 30 June 2010 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
	Note	30 June 2010 HK\$'000	30 June 2009 HK\$'000
Interest income	2	2,383,298	3,012,275
Interest expense	3	(436,340)	(808,313)
Net interest income		1,946,958	2,203,962
Net fee and commission income	4	560,157	483,526
Net income from financial instruments at fair value through profit or loss	5	563,931	354,575
Net gain on disposal of financial investments	6	133,836	46,026
Other income	7	134,703	45,754
Total income		3,339,585	3,133,843
Total expenses	8	(1,994,333)	(1,373,393)
Profit before impairment allowances for credit losses		1,345,252	1,760,450
Impairment allowances for credit losses	9	(133,996)	(653,322)
Profit before income tax		1,211,256	1,107,128
Income tax expense	10	(194,775)	(185,981)
Profit attributable to shareholders		1,016,481	921,147

DBS BANK (HONG KONG) LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Profit attributable to shareholders	1,016,481	921,147
Other comprehensive income		
Foreign currency translation differences for foreign operations	76	(174)
Available-for-sale financial investments		
– Net valuation taken to equity	167,701	439,842
– Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	3,090	8,219
– Transferred to income statement on sale	(112,548)	(45,649)
– Deferred income tax charged to equity	(7,834)	(69,693)
Transfer of land to investment properties		
– Valuation taken to equity	–	400,861
– Deferred income tax charged to equity	–	(66,142)
Other comprehensive income attributable to shareholders, net of tax	50,485	667,264
Total comprehensive income attributable to shareholders	1,066,966	1,588,411

DBS BANK (HONG KONG) LIMITED

UNAUDITED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2010 HK\$'000	As at 31 December 2009 (restated) HK\$'000
Assets			
Cash and balances with banks	11	16,259,378	29,355,036
Placements with and advances to banks	12	27,908,669	15,564,769
Trading securities		10,098,633	2,413,528
Financial assets designated at fair value through profit or loss		38,578	38,385
Positive replacement values for derivative financial instruments		8,142,795	3,193,072
Advances to customers less impairment allowances	13	142,383,974	130,678,814
Financial investments	14	28,711,726	36,634,546
Other assets		3,535,136	4,783,122
Deferred income tax assets		964	–
Fixed assets	15	3,290,580	3,394,614
– Investment properties		685,500	685,800
– Other properties and equipment		2,605,080	2,708,814
Total assets		<u>240,370,433</u>	<u>226,055,886</u>
Liabilities			
Deposits and balances from banks		4,987,613	2,587,657
Trading liabilities		6,771,456	3,678,555
Financial liabilities designated at fair value through profit or loss	16	795,312	658,580
Negative replacement values for derivative financial instruments		8,167,102	3,404,705
Deposits from customers	17	180,289,098	181,870,798
Certificates of deposit issued	18	4,730,781	1,552,911
Other liabilities		7,046,059	6,050,665
Current income tax liabilities		530,985	380,162
Deferred income tax liabilities		87,749	95,416
Amount due to a jointly controlled entity		1,016,569	911,732
Subordinated liability	19	4,203,711	4,187,673
Total liabilities		<u>218,626,435</u>	<u>205,378,854</u>
Equity			
Share capital		7,000,000	7,000,000
Reserves		14,743,998	13,677,032
Total equity		<u>21,743,998</u>	<u>20,677,032</u>
Total liabilities and equity		<u>240,370,433</u>	<u>226,055,886</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 1 January 2009	5,200,000	595,503	11,636	(445,829)	2,398,792	132	7,777,609	15,537,843
Issuance of shares	1,800,000	-	-	-	-	-	-	1,800,000
Total comprehensive income	-	-	-	667,438	-	(174)	921,147	1,588,411
Balance as at 30 June 2009	7,000,000	595,503	11,636	221,609	2,398,792	(42)	8,698,756	18,926,254
Transferred to retained earnings on sale of investment properties	-	-	-	(21,562)	-	-	21,562	-
Total comprehensive income	-	-	-	280,427	-	46	1,470,305	1,750,778
Balance as at 31 December 2009	7,000,000	595,503	11,636	480,474	2,398,792	4	10,190,623	20,677,032
Total comprehensive income	-	-	-	50,409	-	76	1,016,481	1,066,966
Balance as at 30 June 2010	<u>7,000,000</u>	<u>595,503</u>	<u>11,636</u>	<u>530,883</u>	<u>2,398,792</u>	<u>80</u>	<u>11,207,104</u>	<u>21,743,998</u>

As at 30 June 2010, HK\$722,304,000 (31 December 2009: HK\$668,872,000) was earmarked as the regulatory reserve from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong 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.

DBS BANK (HONG KONG) LIMITED

REVIEW OF ACTIVITIES

During the period, the Bank's profit attributable to shareholders increased by 10.3% from the same period last year to HK\$1,016 million, return on average total assets of 0.9% and return on average shareholders' funds of 9.6% were recorded.

Total income increased by 6.6% to HK\$3,340 million. Net interest income decreased by 11.7% to HK\$1,947 million, while net interest margin dropped by 26 basis points to 1.82%. Non-interest income increased by 49.8% to HK\$1,393 million. Total expenses rose by 45.2% to HK\$1,994 million, with staff costs increased by 4.1% and non-staff costs increased by 90.3%. The cost-to-income ratio increased to 59.7% compared to 43.8% in the first half of 2009. With improved credit environment, impairment allowances dropped from HK\$653 million in the first half of 2009 to HK\$134 million.

Gross advances to customers increased 8.5% from December 2009 to HK\$145 billion. Customer deposits decreased 1.0% from December 2009 to HK\$181 billion. The loan-to-deposit ratio increased to 78.8% from 71.6% in December 2009.

The Bank's financial position remains good. Capital adequacy ratio stood at a comfortable level of 14.8% as at 30 June 2010. Average liquidity ratio was 33.1% for the first half of 2010, compared to 33.7% for the first half of 2009.

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 22.

2 Interest income

Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK\$2,363,479,000 (first half of 2009: HK\$2,981,361,000).

3 Interest expense

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK\$423,442,000 (first half of 2009: HK\$789,294,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Net fee and commission income

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Fee and commission income	809,805	678,903
Fee and commission expense	(249,648)	(195,377)
Net fee and commission income	<u>560,157</u>	<u>483,526</u>
Comprising:		
– Wealth management	126,304	78,466
– Trade and remittances	169,559	163,506
– Credit card	89,400	94,690
– Loan-related	104,979	70,480
– Stock broking	23,396	21,810
– Deposit-related	8,125	13,537
– Investment banking	3,481	7,406
– Guarantees	5,261	5,791
– Others	29,652	27,840
	<u>560,157</u>	<u>483,526</u>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	434,756	366,062
– Trust or other fiduciary activities	12,002	14,683
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	232,252	187,355

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	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Net trading income		
– Foreign exchange	558,933	310,047
– Interest rates, credit and equities	159,361	464,981
	<u>718,294</u>	<u>775,028</u>
Net loss from financial instruments designated at fair value through profit or loss	<u>(154,363)</u>	<u>(420,453)</u>
	<u>563,931</u>	<u>354,575</u>

6 Net gain on disposal of financial investments

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Debt securities		
– Available-for-sale	121,609	44,509
– Loans and receivables	9,162	–
Equity securities	3,065	1,517
	<u>133,836</u>	<u>46,026</u>

7 Other income

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Net gain on disposal of fixed assets	97,974	259
Dividend income from listed investments	640	381
Dividend income from unlisted investments	10,468	10,277
Others	25,621	34,837
	<u>134,703</u>	<u>45,754</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Total expenses

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	(restated) HK\$'000
Employee benefits		
– Salaries and other short term employee benefits	699,919	675,129
– Pensions	38,084	35,095
– Share based payments	9,872	8,242
Premises and equipment expenses excluding depreciation		
– Rental of premises	94,970	111,642
– Others	112,333	113,419
Depreciation	109,453	108,491
Auditor's remuneration	4,865	3,642
Computerisation expenses	102,420	110,667
Other operating expenses	822,417	207,066
	<u>1,994,333</u>	<u>1,373,393</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Impairment allowances for credit losses

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Impairment allowances for credit losses		
– Individual impairment allowances on advances to customers	17,803	689,193
– Collective impairment allowances on advances to customers	120,188	(35,190)
– Impairment allowances on available-for-sale financial investments	(3,995)	(681)
	<u>133,996</u>	<u>653,322</u>
Individual impairment allowances on advances to customers		
– New allowances	230,498	886,743
– Releases	(206,599)	(188,913)
– Recoveries	(6,096)	(8,637)
	<u>17,803</u>	<u>689,193</u>
Collective impairment allowances on advances to customers		
– New allowances	156,686	142,012
– Releases	(23,885)	(163,345)
– Recoveries	(12,613)	(13,857)
	<u>120,188</u>	<u>(35,190)</u>
Impairment allowances on available-for-sale financial investments		
– Releases	(3,995)	(681)

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Income tax expense

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Hong Kong profits tax	211,265	165,321
Overseas tax	(25)	2,974
	<u>211,240</u>	<u>168,295</u>
Current income tax	(16,465)	17,686
Deferred income tax		
	<u>194,775</u>	<u>185,981</u>

Hong Kong profits tax has been provided at 16.5% (first half of 2009: 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.

11 Cash and balances with banks

	As at	As at
	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
Cash in hand	404,961	419,891
Balances with central banks	1,117,631	361,303
Balances with banks	12,319,838	25,922,914
Trade bills	2,416,948	2,650,928
	<u>16,259,378</u>	<u>29,355,036</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Placements with and advances to banks

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Remaining maturity		
– One year or less but over one month	27,401,029	14,058,361
– Over one year	507,640	1,506,408
	<u>27,908,669</u>	<u>15,564,769</u>

As at 30 June 2010, there were no impaired, overdue and rescheduled placements with and advances to banks (31 December 2009: Nil).

13 Advances to customers less impairment allowances

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Advances to customers	144,597,960	133,222,917
Impairment allowances		
– Individually assessed	(1,454,775)	(1,848,459)
– Collectively assessed	(759,211)	(695,644)
	<u>142,383,974</u>	<u>130,678,814</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Advances to customers less impairment allowances (continued)

Impaired advances

	As at 30 June 2010		As at 31 December 2009	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Gross impaired advances	2,225,265	1.54	2,898,204	2.18
Individual impairment allowances	(1,454,775)		(1,848,459)	
	<u>770,490</u>		<u>1,049,745</u>	
Impaired advances covered by collateral	<u>753,083</u>		<u>966,997</u>	

Impaired advances to customers are individually assessed customer advances with objective evidence of impairment.

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

14 Financial investments

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Available-for-sale	26,624,240	31,753,531
Loans and receivables	2,087,486	4,881,015
	<u>28,711,726</u>	<u>36,634,546</u>

As at 30 June 2010, there were no impaired, overdue and rescheduled financial investments (31 December 2009: HK\$880,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Fixed assets

	Freehold properties HK\$'000	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1 January 2010						
– as previously reported	22,967	530,717	1,058,705	1,612,389	685,800	2,298,189
– on adoption of HKAS 17	–	2,326,949	–	2,326,949	–	2,326,949
As at 1 January 2010 (restated)	22,967	2,857,666	1,058,705	3,939,338	685,800	4,625,138
Additions	–	89	23,256	23,345	–	23,345
Disposals	–	(46,118)	(90,292)	(136,410)	(300)	(136,710)
As at 30 June 2010	22,967	2,811,637	991,669	3,826,273	685,500	4,511,773
Accumulated depreciation and impairment						
As at 1 January 2010						
– as previously reported	16,800	210,467	445,922	673,189	–	673,189
– on adoption of HKAS 17	–	557,335	–	557,335	–	557,335
As at 1 January 2010 (restated)	16,800	767,802	445,922	1,230,524	–	1,230,524
Charge for the period	34	30,729	78,690	109,453	–	109,453
Disposals	–	(36,671)	(82,113)	(118,784)	–	(118,784)
As at 30 June 2010	16,834	761,860	442,499	1,221,193	–	1,221,193
Net book value						
As at 30 June 2010	<u>6,133</u>	<u>2,049,777</u>	<u>549,170</u>	<u>2,605,080</u>	<u>685,500</u>	<u>3,290,580</u>
The analysis of cost or valuation of the above assets as at 30 June 2010 is as follows:						
At cost	22,967	2,811,637	991,669	3,826,273	–	3,826,273
At valuation	–	–	–	–	685,500	685,500
	<u>22,967</u>	<u>2,811,637</u>	<u>991,669</u>	<u>3,826,273</u>	<u>685,500</u>	<u>4,511,773</u>

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates as at 31 December 2009. The fair value represents the estimated amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Fixed assets (continued)

	Freehold properties HK\$'000	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1 January 2009						
– as previously reported	22,967	645,022	961,522	1,629,511	138,200	1,767,711
– on adoption of HKAS 17	–	2,477,955	–	2,477,955	–	2,477,955
As at 1 January 2009 (restated)	22,967	3,122,977	961,522	4,107,466	138,200	4,245,666
Additions	–	–	150,741	150,741	6	150,747
Disposals	–	(38,355)	(53,558)	(91,913)	(28,754)	(120,667)
Elimination of accumulated depreciation upon transfer to investment properties	–	(80,078)	–	(80,078)	–	(80,078)
Surplus on revaluation of land upon transfer to investment properties	–	400,861	–	400,861	–	400,861
Transfer from land and buildings to investment properties	–	(547,739)	–	(547,739)	547,739	–
Fair value adjustment	–	–	–	–	28,609	28,609
As at 31 December 2009	22,967	2,857,666	1,058,705	3,939,338	685,800	4,625,138
Accumulated depreciation and impairment						
As at 1 January 2009						
– as previously reported	16,710	255,702	316,845	589,257	–	589,257
– on adoption of HKAS 17	–	541,094	–	541,094	–	541,094
As at 1 January 2009 (restated)	16,710	796,796	316,845	1,130,351	–	1,130,351
Charge for the year	90	68,331	150,096	218,517	–	218,517
Disposals	–	(17,247)	(21,019)	(38,266)	–	(38,266)
Elimination of accumulated depreciation upon transfer to investment properties	–	(80,078)	–	(80,078)	–	(80,078)
As at 31 December 2009	16,800	767,802	445,922	1,230,524	–	1,230,524
Net book value						
As at 31 December 2009	<u>6,167</u>	<u>2,089,864</u>	<u>612,783</u>	<u>2,708,814</u>	<u>685,800</u>	<u>3,394,614</u>
The analysis of cost or valuation of the above assets as at 31 December 2009 is as follows:						
At cost	22,967	2,857,666	1,058,705	3,939,338	–	3,939,338
At valuation	–	–	–	–	685,800	685,800
	<u>22,967</u>	<u>2,857,666</u>	<u>1,058,705</u>	<u>3,939,338</u>	<u>685,800</u>	<u>4,625,138</u>

DBS BANK (HONG KONG) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****16 Financial liabilities designated at fair value through profit or loss**

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Financial liabilities designated at fair value through profit or loss		
– Structured investment deposits (Note 17)	464,961	658,580
– Certificates of deposit issued (Note 18)	330,351	–
	<u>795,312</u>	<u>658,580</u>

17 Deposits from customers

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Deposits from customers		
– As stated in the balance sheet	180,289,098	181,870,798
– Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 16)	464,961	658,580
	<u>180,754,059</u>	<u>182,529,378</u>
Analysed by:		
– Demand deposits and current accounts	15,337,906	16,410,816
– Savings deposits	61,262,296	70,510,350
– Time, call and notice deposits	104,153,857	95,608,212
	<u>180,754,059</u>	<u>182,529,378</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Certificates of deposit issued

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Certificates of deposit issued		
– At amortised cost	2,428,194	499,309
– Adjusted for fair value changes under fair value hedge	2,302,587	1,053,602
As stated in the balance sheet	4,730,781	1,552,911
Reported as financial liabilities designated at fair value through profit or loss (Note 16)	330,351	–
	<u>5,061,132</u>	<u>1,552,911</u>

19 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 12 December 2006. The Loan will mature on 12 December 2016 with an optional repayment date on 13 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)

20 Derivative financial instruments

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

As at 30 June 2010

Derivatives held for trading	Contract/ notional amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive replacement value HK\$'000	Negative replacement value HK\$'000
Exchange rate contracts				
– Forwards	51,905,369	486,226	580,656	548,562
– Swaps	75,028,760	69,379	268,651	211,632
– Options purchased	265,512,963	10,037,159	6,304,779	–
– Options written	265,663,709	–	–	6,304,497
	<u>658,110,801</u>	<u>10,592,764</u>	<u>7,154,086</u>	<u>7,064,691</u>
Interest rate contracts				
– Futures	1,206,621	–	3	2,061
– Swaps	105,019,204	228,756	794,996	760,965
– Options purchased	756,854	522	23,760	–
– Options written	756,854	–	–	23,760
	<u>107,739,533</u>	<u>229,278</u>	<u>818,759</u>	<u>786,786</u>
Equity contracts	<u>551,280</u>	<u>3,722</u>	<u>7,790</u>	<u>7,789</u>
Total derivatives held for trading	<u><u>766,401,614</u></u>	<u><u>10,825,764</u></u>	<u><u>7,980,635</u></u>	<u><u>7,859,266</u></u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u>4,974,882</u>	<u>43,666</u>	<u>190,322</u>	<u>335,296</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Derivative financial instruments (continued)

As at 31 December 2009

Derivatives held for trading	Contract/ notional amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive replacement value HK\$'000	Negative replacement value HK\$'000
Exchange rate contracts				
– Forwards	52,187,441	696,256	939,428	912,912
– Swaps	45,902,898	83,951	118,037	56,840
– Options purchased	79,610,192	1,787,539	1,265,572	–
– Options written	79,994,841	–	–	1,258,606
	<u>257,695,372</u>	<u>2,567,746</u>	<u>2,323,037</u>	<u>2,228,358</u>
Interest rate contracts				
– Futures	8,204,738	–	20,140	613
– Swaps	60,201,062	257,195	795,601	668,737
– Options purchased	181,135	573	386	–
– Options written	181,135	–	–	386
	<u>68,768,070</u>	<u>257,768</u>	<u>816,127</u>	<u>669,736</u>
Equity contracts	<u>2,522,322</u>	<u>8,927</u>	<u>147,392</u>	<u>147,392</u>
Credit derivative contracts	<u>763,863</u>	<u>–</u>	<u>1,825</u>	<u>68,751</u>
Total derivatives held for trading	<u>329,749,627</u>	<u>2,834,441</u>	<u>3,288,381</u>	<u>3,114,237</u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u>4,580,777</u>	<u>16,977</u>	<u>43,604</u>	<u>293,991</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 positive and negative replacement values of embedded derivatives included in above amounted to HK\$28,162,000 and HK\$27,460,000 respectively (31 December 2009: HK\$138,913,000 and HK\$3,523,000 respectively). The contract or notional 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 taken into account the effect of bilateral netting arrangements and have been calculated in accordance with the Banking (Capital) Rules.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Contingent liabilities and commitments

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

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Direct credit substitutes	989,112	992,697
Transaction-related contingencies	657,823	675,526
Trade-related contingencies	6,936,784	6,002,650
Forward forward deposits placed	498,218	17,099,888
Other commitments with an original maturity of not more than one year	3,611,086	2,762,824
Other commitments with an original maturity of more than one year	138,790	29,141
Other commitments which are unconditionally cancellable	<u>93,175,662</u>	<u>93,603,307</u>
	<u>106,007,475</u>	<u>121,166,033</u>
Credit risk-weighted amount	<u>9,412,431</u>	<u>10,499,958</u>

22 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 (the "Capital Rules") issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance.

The Bank adopts the Foundation Internal Ratings-Based ("IRB") approach for the calculation of the risk-weighted assets for credit risk and the Standardised approaches for the calculation of risk-weighted assets for operational risk and market risk respectively.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Capital structure and adequacy (continued)

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

	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Core capital		
Paid up ordinary share capital	7,000,000	7,000,000
Share premium	595,503	595,503
Reserves (eligible for inclusion in core capital)	11,317,211	9,011,775
Profit and loss account	998,406	2,366,701
	<u>19,911,120</u>	<u>18,973,979</u>
Deductions from core capital	<u>(361,613)</u>	<u>(252,899)</u>
Core capital after deductions	<u>19,549,507</u>	<u>18,721,080</u>
Supplementary capital		
Reserve on revaluation of holding of land and buildings	242,398	242,398
Reserve on revaluation of holding of securities not held for trading purposes	114,099	87,889
Collective impairment allowances	96,520	115,257
Regulatory reserve	63,942	106,476
Term subordinated liability	4,203,711	4,187,673
	<u>4,720,670</u>	<u>4,739,693</u>
Deductions from supplementary capital	<u>(361,613)</u>	<u>(252,899)</u>
Supplementary capital after deductions	<u>4,359,057</u>	<u>4,486,794</u>
Total capital base before deductions	24,631,790	23,713,672
Deductions from core capital and supplementary capital	<u>(723,226)</u>	<u>(505,798)</u>
Total capital base after deductions	<u>23,908,564</u>	<u>23,207,874</u>
Risk-weighted assets	<u>161,211,680</u>	<u>149,029,765</u>
Capital adequacy ratio		
Core capital ratio	12.1%	12.6%
Supplementary capital ratio	2.7%	3.0%
Total capital adequacy ratio	<u>14.8%</u>	<u>15.6%</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 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
As at 30 June 2010				
Asia Pacific excluding Hong Kong	48,446	858	5,627	54,931
North and South America	2,753	3,206	520	6,479
Europe	2,162	4	497	2,663
Others	17	164	1,461	1,642
	<u>53,378</u>	<u>4,232</u>	<u>8,105</u>	<u>65,715</u>
As at 31 December 2009				
Asia Pacific excluding Hong Kong	55,523	161	5,031	60,715
North and South America	5,799	1,454	542	7,795
Europe	6,930	4	428	7,362
Others	10	160	711	881
	<u>68,262</u>	<u>1,779</u>	<u>6,712</u>	<u>76,753</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)

24 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 30 June 2010		As at 31 December 2009	
	Outstanding balance HK\$'000	Balance covered by collateral HK\$'000	Outstanding balance HK\$'000	Balance covered by collateral HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	1,897,822	1,896,891	1,463,041	1,458,321
– Property investment	25,803,736	25,192,302	23,639,903	23,171,959
– Financial concerns	570,522	334,631	582,349	395,021
– Stockbrokers	360,175	158,674	203,525	103,024
– Wholesale and retail trade	3,275,726	2,805,356	2,976,874	2,587,808
– Manufacturing	10,036,097	6,919,171	9,629,377	6,262,252
– Transport and transport equipment	11,797,618	11,636,253	11,555,777	11,281,874
– Recreational activities	39,932	36,165	44,452	38,136
– Information technology	159,987	87,582	109,125	94,466
– Others	4,542,491	3,228,480	4,563,735	3,272,598
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	1,189,506	1,189,506	1,323,617	1,323,617
– Loans for the purchase of other residential properties	43,864,369	43,864,369	41,082,605	41,082,605
– Credit card advances	5,141,098	–	5,462,108	–
– Others	7,155,100	2,597,000	6,332,766	2,644,779
	<u>115,834,179</u>	<u>99,946,380</u>	<u>108,969,254</u>	<u>93,716,460</u>
Trade finance	24,060,020	15,062,277	20,205,143	12,663,471
Loans for use outside Hong Kong	<u>4,703,761</u>	<u>2,904,607</u>	<u>4,048,520</u>	<u>3,244,197</u>
	<u><u>144,597,960</u></u>	<u><u>117,913,264</u></u>	<u><u>133,222,917</u></u>	<u><u>109,624,128</u></u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 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
As at 30 June 2010			
Property investment	40,872	10,458	109,413
Loans for the purchase of other residential properties	30,591	727	10,051
Trade finance	883,478	556,367	249,466
As at 31 December 2009			
Property investment	279,160	23,042	113,586
Loans for the purchase of other residential properties	60,160	1,878	9,169
Trade finance	1,058,113	795,596	203,483

(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 were 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)

25 Overdue and rescheduled advances

(a) Overdue advances to customers

The overdue advances of the Bank are analysed as follows:

	As at 30 June 2010		As at 31 December 2009	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Six months or less but over three months	118,016	0.08	253,909	0.19
One year or less but over six months	235,801	0.16	683,426	0.51
Over one year	1,523,703	1.06	1,449,375	1.09
	<u>1,877,520</u>	<u>1.30</u>	<u>2,386,710</u>	<u>1.79</u>
Individual impairment allowances made in respect of the above overdue advances	<u>1,284,344</u>		<u>1,664,537</u>	
Current market value of collateral held against the covered portion of the above overdue advances	<u>1,257,455</u>		<u>1,345,531</u>	
Covered portion of the above overdue advances	<u>506,001</u>		<u>651,794</u>	
Uncovered portion of the above overdue advances	<u>1,371,519</u>		<u>1,734,916</u>	

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 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 30 June 2010		As at 31 December 2009	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Rescheduled advances	<u>363,193</u>	0.25	<u>359,932</u>	0.27

(c) Repossessed assets

As at 30 June 2010, repossessed assets of the Bank amounted to HK\$50,963,000 (31 December 2009: HK\$107,585,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 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
As at 30 June 2010				
Mainland entities	113,995	55,937	169,932	20,784
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,164,898	1,843,755	6,008,653	283,568
Other counterparties where the exposures are considered to be non-bank Mainland exposures	<u>92,617</u>	<u>22,120</u>	<u>114,737</u>	<u>–</u>
	<u>4,371,510</u>	<u>1,921,812</u>	<u>6,293,322</u>	<u>304,352</u>
As at 31 December 2009				
Mainland entities	154,700	36,314	191,014	20,784
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,969,759	1,392,269	5,362,028	357,163
Other counterparties where the exposures are considered to be non-bank Mainland exposures	<u>136,605</u>	<u>27,503</u>	<u>164,108</u>	<u>–</u>
	<u>4,261,064</u>	<u>1,456,086</u>	<u>5,717,150</u>	<u>377,947</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 Currency concentrations

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

HK\$' million	USD	CNY	GBP	NZD	Others	Total
As at 30 June 2010						
Hong Kong dollar equivalents						
Spot assets	68,654	2,119	271	1,218	9,530	81,792
Spot liabilities	(53,970)	(2,121)	(1,997)	(2,361)	(20,143)	(80,592)
Forward purchases	55,716	9,428	2,336	1,584	16,991	86,055
Forward sales	(71,066)	(9,200)	(715)	(356)	(6,387)	(87,724)
Net options position	(80)	(17)	43	22	35	3
Net (short) / long non-structural position	<u>(746)</u>	<u>209</u>	<u>(62)</u>	<u>107</u>	<u>26</u>	<u>(466)</u>
Net structural position	<u>-</u>	<u>29</u>	<u>-</u>	<u>-</u>	<u>(63)</u>	<u>(34)</u>
As at 31 December 2009						
Hong Kong dollar equivalents						
Spot assets	45,545	1,435	755	2,101	14,501	64,337
Spot liabilities	(51,280)	(1,435)	(1,863)	(2,766)	(19,281)	(76,625)
Forward purchases	52,220	9,794	1,635	781	8,266	72,696
Forward sales	(45,630)	(9,503)	(542)	(173)	(3,106)	(58,954)
Net options position	(24)	-	8	43	(101)	(74)
Net long / (short) non-structural position	<u>831</u>	<u>291</u>	<u>(7)</u>	<u>(14)</u>	<u>279</u>	<u>1,380</u>
Net structural position	<u>-</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>(44)</u>	<u>(16)</u>

The net structural position as at 30 June 2010 comprised the Group's unremitted earnings of HK\$63,000,000 equivalent (31 December 2009: HK\$44,000,000) from a Macau Pataca (MOP) investment in Macau, and Renminbi investments of HK\$29,000,000 equivalent (31 December 2009: 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)

28 Liquidity ratio

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

	For the six months ended	
	30 June 2010	30 June 2009
Average liquidity ratio for the period	<u>33.1%</u>	<u>33.7%</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.

29 Provision for Lehman Brothers related Constellation Notes

The Bank has agreed with the Hong Kong Monetary Authority and the Securities and Futures Commission, without admitting any liability, to offer a resolution scheme in respect of the Lehman Brothers ("LB") related Constellation Notes (the "Resolution"). Under the Resolution, the Bank will offer to pay in total approximately HK\$651 million to its customers who purchased LB-related Constellation Notes and who were classified, at the time of purchase, as having a low to medium risk profile. The Bank has already made provision in relation to the Resolution as at 30 June 2010.

30 Comparative figures

The Group has adopted the amendment to HKAS 17 Leases during the period. The amendment states that leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. Previously, leasehold land was classified as an operating lease and disclosed as lease premium for land which was stated at cost less accumulated amortisation. The Group has reassessed the classification of unexpired leasehold land as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified leasehold land from operating lease to finance lease. The amendment has been applied retrospectively and the comparative figures have been restated.

Hong Kong, 22 July 2010