

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 2011**

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2011 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
	Note	30 June 2011	30 June 2010
		HK\$'000	HK\$'000
Interest income	2	2,530,815	2,383,298
Interest expense	3	(564,716)	(436,340)
Net interest income		1,966,099	1,946,958
Net fee and commission income	4	640,967	560,157
Net income from financial instruments at fair value through profit or loss	5	731,764	563,931
Net income from financial investments	6	33,625	144,944
Other income	7	110,167	123,595
Total income		3,482,622	3,339,585
Total expenses	8	(1,681,091)	(1,994,333)
Profit before allowances for credit and other losses		1,801,531	1,345,252
Allowances for credit and other losses	9	(122,471)	(133,996)
Profit before income tax		1,679,060	1,211,256
Income tax expense	10	(250,935)	(194,775)
Profit attributable to shareholders		1,428,125	1,016,481

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June 2011	30 June 2010
	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>1,428,125</u>	<u>1,016,481</u>
Other comprehensive income		
Foreign currency translation differences for foreign operations	(50)	76
Available-for-sale financial investments		
– Net valuation taken to equity	61,060	167,701
– Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	2,410	3,090
– Transferred to income statement on sale	(11,804)	(112,548)
– Deferred income tax charged to equity	<u>(1,629)</u>	<u>(7,834)</u>
Other comprehensive income attributable to shareholders, net of tax	<u>49,987</u>	<u>50,485</u>
Total comprehensive income attributable to shareholders	<u><u>1,478,112</u></u>	<u><u>1,066,966</u></u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Assets			
Cash and balances with banks	11	24,835,054	35,018,345
Placements with and advances to banks	12	7,125,781	13,731,655
Trading securities		4,609,794	7,149,653
Financial assets designated at fair value through profit or loss		—	39,132
Positive fair values for derivative financial instruments		8,950,590	8,058,299
Advances to customers less impairment allowances	13	177,925,786	149,683,757
Financial investments	14	26,679,187	26,773,970
Other assets		5,904,161	4,134,824
Deferred income tax assets		2,158	1,587
Properties and other fixed assets	15	2,676,225	2,831,240
– Investment properties		368,400	368,400
– Other properties and fixed assets		2,307,825	2,462,840
Total assets		<u>258,708,736</u>	<u>247,422,462</u>
Liabilities			
Deposits and balances from banks		13,858,550	783,386
Trading liabilities		2,501,922	5,787,552
Financial liabilities designated at fair value through profit or loss	16	1,283,408	791,862
Negative fair values for derivative financial instruments		9,110,332	8,261,220
Deposits from customers	17	181,864,875	188,452,232
Certificates of deposit issued	18	9,753,746	5,827,391
Other liabilities		9,846,182	8,705,503
Current income tax liabilities		418,166	242,574
Deferred income tax liabilities		8,657	28,749
Amount due to a jointly controlled entity		1,200,788	1,161,343
Subordinated liability	19	4,202,604	4,199,256
Total liabilities		<u>234,049,230</u>	<u>224,241,068</u>
Equity			
Share capital		7,000,000	7,000,000
Reserves		17,659,506	16,181,394
Total equity		<u>24,659,506</u>	<u>23,181,394</u>
Total liabilities and equity		<u>258,708,736</u>	<u>247,422,462</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2010	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	7,000,000	595,503	11,636	530,883	2,398,792	80	11,207,104	21,743,998
Transferred to retained earnings on sale of investment properties	—	—	—	(280,975)	—	—	280,975	—
Total comprehensive income	—	—	—	9,692	—	(29)	1,427,733	1,437,396
Balance as at 31 December 2010	7,000,000	595,503	11,636	259,600	2,398,792	51	12,915,812	23,181,394
Total comprehensive income	—	—	—	50,037	—	(50)	1,428,125	1,478,112
Balance as at 30 June 2011	<u>7,000,000</u>	<u>595,503</u>	<u>11,636</u>	<u>309,637</u>	<u>2,398,792</u>	<u>1</u>	<u>14,343,937</u>	<u>24,659,506</u>

As at 30 June 2011, HK\$1,228,053,000 (31 December 2010: HK\$757,978,000) 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 AND ITS SUBSIDIARIES

REVIEW OF ACTIVITIES

During the period, the Bank's profit attributable to shareholders increased by 40.5% from the same period last year to HK\$1,428 million.

Total income increased by 4.3% to HK\$3,483 million. Net interest income increased by 1.0% to HK\$1,966 million, while net interest margin dropped by 9 basis points to 1.73%. Non-interest income increased by 8.9% to HK\$1,517 million. Total expenses dropped by 15.7% to HK\$1,681 million, with staff costs increased by 18.9% and non-staff costs decreased by 36.4%. The cost-to-income ratio improved to 48.3% compared to 59.7% in the first half of 2010. Allowances for credit and other losses dropped from HK\$134 million in the first half of 2010 to HK\$122 million.

Gross advances to customers increased 18.5% from December 2010 to HK\$180 billion. Customer deposits decreased 3.1% from December 2010 to HK\$183 billion. The loan-to-deposit ratio increased to 86.0% from 77.5% in December 2010.

The Bank's financial position remains good. Capital adequacy ratio stood at a comfortable level of 14.2% as at 30 June 2011. Average liquidity ratio was 30.9% for the first half of 2011, compared to 33.1% for the first half of 2010.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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\$2,500,303,000 (first half of 2010: HK\$2,363,479,000).

3 Interest expense

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK\$554,383,000 (first half of 2010: HK\$423,442,000).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Net fee and commission income

	For the six months ended	
	30 June 2011	30 June 2010
	HK\$'000	HK\$'000
Fee and commission income	981,342	809,805
Fee and commission expense	(340,375)	(249,648)
Net fee and commission income	<u>640,967</u>	<u>560,157</u>
Comprising:		
– Wealth management	177,389	126,304
– Trade and remittances	180,296	169,559
– Credit card	92,335	89,400
– Loan-related	112,732	104,979
– Stock broking	28,671	23,396
– Deposit-related	11,273	8,125
– Investment banking	982	3,481
– Guarantees	7,036	5,261
– Others	30,253	29,652
	<u>640,967</u>	<u>560,157</u>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	516,702	434,756
– Trust or other fiduciary activities	10,143	12,002
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	300,362	232,252

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2011 HK\$'000	30 June 2010 HK\$'000
Net trading income		
– Foreign exchange	600,999	558,933
– Interest rates, equities and commodities	142,366	159,361
	<u>743,365</u>	<u>718,294</u>
Net loss from financial instruments designated at fair value through profit or loss	(11,601)	(154,363)
	<u>731,764</u>	<u>563,931</u>

6 Net income from financial investments

	For the six months ended	
	30 June 2011 HK\$'000	30 June 2010 HK\$'000
Debt securities		
– Available-for-sale	8,365	121,609
– Loans and receivables	11,257	9,162
Equity securities	14,003	14,173
	<u>33,625</u>	<u>144,944</u>

Net income from equity securities includes dividend income of HK\$1,019,000 (first half of 2010: HK\$640,000) and HK\$8,884,000 (first half of 2010: HK\$10,468,000) from listed and unlisted equity securities respectively.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Other income

	For the six months ended	
	30 June 2011 HK\$'000	30 June 2010 HK\$'000
Net gain on disposal of properties and other fixed assets	89,953	97,974
Others	20,214	25,621
	<u>110,167</u>	<u>123,595</u>

8 Total expenses

	For the six months ended	
	30 June 2011 HK\$'000	30 June 2010 HK\$'000
Employee benefits		
– Salaries and other short term employee benefits	825,452	699,919
– Pensions	51,351	38,084
– Share based payments	12,077	9,872
Premises and equipment expenses excluding depreciation		
– Rental of premises	100,071	94,970
– Others	118,633	112,333
Depreciation	123,007	109,453
Auditor's remuneration	4,082	4,865
Computerisation expenses	143,320	102,420
Other operating expenses	303,098	822,417
	<u>1,681,091</u>	<u>1,994,333</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Allowances for credit and other losses

	For the six months ended	
	30 June 2011 HK\$'000	30 June 2010 HK\$'000
Individual impairment allowances on advances to customers	17,634	17,803
Collective impairment allowances on advances to customers	61,837	120,188
Impairment allowances on available-for-sale financial investments	–	(3,995)
Allowances for other credit related losses	43,000	–
	<u>122,471</u>	<u>133,996</u>
Individual impairment allowances on advances to customers		
– New allowances	129,442	230,498
– Releases	(104,715)	(206,599)
– Recoveries	(7,093)	(6,096)
	<u>17,634</u>	<u>17,803</u>
Collective impairment allowances on advances to customers		
– New allowances	91,782	156,686
– Releases	(15,843)	(23,885)
– Recoveries	(14,102)	(12,613)
	<u>61,837</u>	<u>120,188</u>
Impairment allowances on available-for-sale financial investments		
– Releases	–	(3,995)
Allowances for other credit related losses		
– New allowances	43,000	–
	<u>43,000</u>	<u>–</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Income tax expense

	For the six months ended	
	30 June 2011 HK\$'000	30 June 2010 HK\$'000
Hong Kong profits tax	269,860	211,265
Overseas tax	3,368	(25)
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Current income tax	273,228	211,240
Deferred income tax	(22,293)	(16,465)
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	250,935	194,775
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Hong Kong profits tax has been provided at 16.5% (first half of 2010: 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 2011 HK\$'000	31 December 2010 HK\$'000
Cash in hand	426,470	426,181
Balances with central banks	2,723,681	561,709
Balances with banks	21,684,903	34,030,455
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	24,835,054	35,018,345
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DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Placements with and advances to banks

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Remaining maturity		
– One year or less but over one month	7,096,681	13,702,555
– Over one year	29,100	29,100
	<u>7,125,781</u>	<u>13,731,655</u>

As at 30 June 2011, there were no impaired, overdue or rescheduled placements with and advances to banks (31 December 2010: Nil).

13 Advances to customers less impairment allowances

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Advances to customers	179,931,722	151,858,292
Impairment allowances		
– Individually assessed	(1,235,661)	(1,410,619)
– Collectively assessed	(770,275)	(763,916)
	<u>177,925,786</u>	<u>149,683,757</u>
Comprising:		
– Trade bills	23,503,298	4,510,518
– Loans	154,422,488	145,173,239
	<u>177,925,786</u>	<u>149,683,757</u>

Trade bills accepted by banks have been reclassified from balances with banks to advances to customers to align with the parties receiving the funding.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Advances to customers less impairment allowances (continued)

Impaired advances

	As at 30 June 2011		As at 31 December 2010	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Gross impaired advances	1,685,533	0.94	1,931,267	1.27
Individual impairment allowances	<u>(1,235,661)</u>		<u>(1,410,619)</u>	
	<u>449,872</u>		<u>520,648</u>	
Impaired advances covered by collateral	<u>509,376</u>		<u>587,777</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 2011 HK\$'000	As at 31 December 2010 HK\$'000
Available-for-sale	25,284,416	24,607,069
Loans and receivables	<u>1,394,771</u>	<u>2,166,901</u>
	<u>26,679,187</u>	<u>26,773,970</u>

As at 30 June 2011, there were no impaired, overdue or rescheduled financial investments (31 December 2010: Nil).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Properties and other 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 2011	22,967	2,812,844	1,019,680	3,855,491	368,400	4,223,891
Additions	-	246	15,800	16,046	-	16,046
Disposals	-	(99,888)	(9,144)	(109,032)	-	(109,032)
As at 30 June 2011	<u>22,967</u>	<u>2,713,202</u>	<u>1,026,336</u>	<u>3,762,505</u>	<u>368,400</u>	<u>4,130,905</u>
Accumulated depreciation and impairment						
As at 1 January 2011	16,848	791,493	584,310	1,392,651	-	1,392,651
Charge for the period	14	29,291	93,702	123,007	-	123,007
Disposals	-	(53,378)	(7,600)	(60,978)	-	(60,978)
As at 30 June 2011	<u>16,862</u>	<u>767,406</u>	<u>670,412</u>	<u>1,454,680</u>	<u>-</u>	<u>1,454,680</u>
Net book value						
As at 30 June 2011	<u>6,105</u>	<u>1,945,796</u>	<u>355,924</u>	<u>2,307,825</u>	<u>368,400</u>	<u>2,676,225</u>
The analysis of cost or valuation of the above assets as at 30 June 2011 is as follows:						
At cost	22,967	2,713,202	1,026,336	3,762,505	-	3,762,505
At valuation	-	-	-	-	368,400	368,400
	<u>22,967</u>	<u>2,713,202</u>	<u>1,026,336</u>	<u>3,762,505</u>	<u>368,400</u>	<u>4,130,905</u>

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates as at 31 December 2010. 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 AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Properties and other 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 2010	22,967	2,857,666	1,058,705	3,939,338	685,800	4,625,138
Additions	–	1,819	56,468	58,287	–	58,287
Disposals	–	(46,641)	(95,493)	(142,134)	(380,007)	(522,141)
Fair value adjustment	–	–	–	–	62,607	62,607
As at 31 December 2010	<u>22,967</u>	<u>2,812,844</u>	<u>1,019,680</u>	<u>3,855,491</u>	<u>368,400</u>	<u>4,223,891</u>
Accumulated depreciation and impairment						
As at 1 January 2010	16,800	767,802	445,922	1,230,524	–	1,230,524
Charge for the year	48	60,870	221,043	281,961	–	281,961
Disposals	–	(37,179)	(82,655)	(119,834)	–	(119,834)
As at 31 December 2010	<u>16,848</u>	<u>791,493</u>	<u>584,310</u>	<u>1,392,651</u>	<u>–</u>	<u>1,392,651</u>
Net book value						
As at 31 December 2010	<u>6,119</u>	<u>2,021,351</u>	<u>435,370</u>	<u>2,462,840</u>	<u>368,400</u>	<u>2,831,240</u>
The analysis of cost or valuation of the above assets as at 31 December 2010 is as follows:						
At cost	22,967	2,812,844	1,019,680	3,855,491	–	3,855,491
At valuation	–	–	–	–	368,400	368,400
	<u>22,967</u>	<u>2,812,844</u>	<u>1,019,680</u>	<u>3,855,491</u>	<u>368,400</u>	<u>4,223,891</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Financial liabilities designated at fair value through profit or loss

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Financial liabilities designated at fair value through profit or loss		
– Structured investment deposits (Note 17)	1,107,282	467,272
– Certificates of deposit issued (Note 18)	176,126	324,590
	<u>1,283,408</u>	<u>791,862</u>

17 Deposits from customers

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Deposits from customers		
– As stated in the balance sheet	181,864,875	188,452,232
– Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 16)	1,107,282	467,272
	<u>182,972,157</u>	<u>188,919,504</u>
Analysed by:		
– Demand deposits and current accounts	17,200,001	17,315,141
– Savings deposits	63,903,577	68,121,048
– Time, call and notice deposits	101,868,579	103,483,315
	<u>182,972,157</u>	<u>188,919,504</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Certificates of deposit issued

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Certificates of deposit issued		
– At amortised cost	5,637,319	2,478,845
– Adjusted for fair value changes under fair value hedge	4,116,427	3,348,546
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As stated in the balance sheet	9,753,746	5,827,391
Reported as financial liabilities designated at fair value through profit or loss (Note 16)	176,126	324,590
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	9,929,872	6,151,981
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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 AND ITS SUBSIDIARIES

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 2011

Derivatives held for trading	Contract/ notional amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive fair value HK\$'000	Negative fair value HK\$'000
Exchange rate contracts				
– Forwards	299,691,905	3,721,469	2,388,646	2,413,831
– Swaps	60,601,428	77,172	169,649	172,952
– Options purchased	227,058,207	10,512,323	5,247,739	–
– Options written	225,118,349	–	–	5,289,342
	<u>812,469,889</u>	<u>14,310,964</u>	<u>7,806,034</u>	<u>7,876,125</u>
Interest rate contracts				
– Futures	786,043	–	100	4
– Swaps	134,817,033	440,547	915,496	911,162
– Options purchased	659,455	28	13,379	–
– Options written	659,455	–	–	13,379
	<u>136,921,986</u>	<u>440,575</u>	<u>928,975</u>	<u>924,545</u>
Equity contracts	<u>1,269,832</u>	<u>4,518</u>	<u>23,166</u>	<u>23,164</u>
Commodity contracts	<u>8,722</u>	<u>308</u>	<u>152</u>	<u>152</u>
Total derivatives held for trading	<u><u>950,670,429</u></u>	<u><u>14,756,365</u></u>	<u><u>8,758,327</u></u>	<u><u>8,823,986</u></u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u><u>6,707,514</u></u>	<u><u>48,011</u></u>	<u><u>205,580</u></u>	<u><u>301,193</u></u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Derivative financial instruments (continued)

As at 31 December 2010

Derivatives held for trading	Contract/ notional amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive fair value HK\$'000	Negative fair value HK\$'000
Exchange rate contracts				
– Forwards	45,244,342	623,981	390,054	362,345
– Swaps	53,958,100	35,041	68,967	135,052
– Options purchased	227,930,984	8,547,839	6,773,255	–
– Options written	227,967,812	–	–	6,770,685
	<u>555,101,238</u>	<u>9,206,861</u>	<u>7,232,276</u>	<u>7,268,082</u>
Interest rate contracts				
– Futures	94,114	–	338	204
– Swaps	111,944,340	235,365	699,965	682,927
– Options purchased	828,377	28	14,240	–
– Options written	828,377	–	–	14,239
	<u>113,695,208</u>	<u>235,393</u>	<u>714,543</u>	<u>697,370</u>
Equity contracts	<u>753,188</u>	<u>6,491</u>	<u>12,217</u>	<u>12,216</u>
Commodity contracts	<u>38,354</u>	<u>5,682</u>	<u>1,908</u>	<u>1,908</u>
Total derivatives held for trading	<u><u>669,587,988</u></u>	<u><u>9,454,427</u></u>	<u><u>7,960,944</u></u>	<u><u>7,979,576</u></u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u>6,102,827</u>	<u>29,486</u>	<u>112,987</u>	<u>301,164</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 fair values of embedded derivatives included in above amounted to HK\$13,317,000 and HK\$14,847,000 respectively (31 December 2010: HK\$15,632,000 and HK\$19,520,000 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 AND ITS SUBSIDIARIES

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 2011 HK\$'000	As at 31 December 2010 HK\$'000
Direct credit substitutes	1,206,456	1,080,119
Transaction-related contingencies	652,930	657,225
Trade-related contingencies	9,740,399	7,999,192
Forward forward deposits placed	–	6,398,783
Other commitments with an original maturity of not more than one year	2,559,377	2,086,715
Other commitments with an original maturity of more than one year	933,881	1,452,889
Other commitments which are unconditionally cancellable	108,153,334	102,028,736
	<u>123,246,377</u>	<u>121,703,659</u>
Credit risk-weighted amount	<u>10,736,499</u>	<u>11,254,549</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 arising from credit risk for the majority of its exposure and the Standardised approach for certain exposures being exempted from the IRB approach. In addition, the Bank adopts the Standardised approaches for the calculation of risk-weighted assets for operational risk and market risk respectively.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2011 HK\$'000	As at 31 December 2010 HK\$'000
Core capital		
Paid up ordinary share capital	7,000,000	7,000,000
Share premium	595,503	595,503
Reserves	13,497,544	11,620,880
Profit and loss account	1,408,927	2,348,119
Deduct:		
Deferred tax assets	(15,847)	–
	<u>22,486,127</u>	<u>21,564,502</u>
Deductions from core capital	<u>(215,599)</u>	<u>(385,256)</u>
Core capital after deductions	<u>22,270,528</u>	<u>21,179,246</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	146,332	146,332
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	113,419	90,169
Unrealised fair value gains arising from holdings of debt securities designated at fair value through profit or loss	–	112
Regulatory reserve	81,833	57,168
Collective impairment allowances	80,490	86,640
Term subordinated liability	4,202,604	4,199,256
	<u>4,624,678</u>	<u>4,579,677</u>
Deductions from supplementary capital	<u>(215,600)</u>	<u>(385,256)</u>
Supplementary capital after deductions	<u>4,409,078</u>	<u>4,194,421</u>
Total capital base before deductions	27,110,805	26,144,179
Deductions from core capital and supplementary capital	<u>(431,199)</u>	<u>(770,512)</u>
Total capital base after deductions	<u>26,679,606</u>	<u>25,373,667</u>
Risk-weighted assets	<u>187,900,104</u>	<u>166,892,828</u>
Capital adequacy ratio		
Core capital ratio	11.9%	12.7%
Supplementary capital ratio	2.3%	2.5%
Total capital adequacy ratio	<u>14.2%</u>	<u>15.2%</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2011				
Asia Pacific excluding Hong Kong	49,664	1,823	11,619	63,106
North and South America	3,440	2,962	593	6,995
Europe	1,690	7	640	2,337
Others	40	161	1,888	2,089
	<u>54,834</u>	<u>4,953</u>	<u>14,740</u>	<u>74,527</u>
As at 31 December 2010				
Asia Pacific excluding Hong Kong	47,793	1,801	9,128	58,722
North and South America	2,862	3,354	577	6,793
Europe	2,774	7	445	3,226
Others	17	161	1,750	1,928
	<u>53,446</u>	<u>5,323</u>	<u>11,900</u>	<u>70,669</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 AND ITS SUBSIDIARIES

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 2011		As at 31 December 2010	
	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	1,834,525	1,834,483	2,029,887	2,029,410
– Property investment	30,408,751	29,454,962	27,907,483	27,171,171
– Financial concerns	1,678,073	1,382,234	983,216	670,265
– Stockbrokers	541,371	344,854	332,782	140,106
– Wholesale and retail trade	15,633,671	13,246,143	12,546,211	11,385,560
– Manufacturing	12,493,642	10,085,434	10,425,302	7,173,081
– Transport and transport equipment	11,064,321	10,842,649	11,280,356	10,949,621
– Recreational activities	38,136	36,219	36,824	33,152
– Information technology	120,604	96,698	164,581	105,196
– Others	6,428,364	5,516,427	4,756,153	3,519,118
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	955,057	955,057	1,075,713	1,075,713
– Loans for the purchase of other residential properties	41,054,378	41,054,378	41,733,825	41,733,825
– Credit card advances	5,856,443	–	6,072,057	–
– Others	6,596,891	1,385,440	7,694,860	3,325,999
	134,704,227	116,234,978	127,039,250	109,312,217
Trade finance	41,097,217	10,635,754	20,337,814	9,062,062
Loans for use outside Hong Kong	4,130,278	2,627,199	4,481,228	2,738,534
	179,931,722	129,497,931	151,858,292	121,112,813

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2011			
Property investment	85,237	42,559	109,171
Loans for the purchase of other residential properties	22,960	–	2,770
Trade finance	516,916	321,994	188,662
As at 31 December 2010			
Property investment	94,850	39,027	121,934
Loans for the purchase of other residential properties	13,060	55	6,757
Trade finance	666,735	449,523	181,834

(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 AND ITS SUBSIDIARIES

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 2011		As at 31 December 2010	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Six months or less but over three months	298,755	0.17	63,902	0.04
One year or less but over six months	65,116	0.04	125,098	0.08
Over one year	1,340,230	0.74	1,511,380	1.00
	<u>1,704,101</u>	<u>0.95</u>	<u>1,700,380</u>	<u>1.12</u>
Individual impairment allowances made in respect of the above overdue advances	<u>1,116,931</u>		<u>1,262,029</u>	
Current market value of collateral held against the covered portion of the above overdue advances	<u>1,327,305</u>		<u>1,110,875</u>	
Covered portion of the above overdue advances	<u>835,732</u>		<u>658,769</u>	
Uncovered portion of the above overdue advances	<u>868,369</u>		<u>1,041,611</u>	

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2011		As at 31 December 2010	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Rescheduled advances	<u>323,585</u>	0.18	<u>345,227</u>	0.23

(c) Repossessed assets

As at 30 June 2011, repossessed assets of the Bank amounted to HK\$32,997,000 (31 December 2010: HK\$51,137,000).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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 2011				
Mainland entities	81,633	40,016	121,649	20,784
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,198,517	1,821,834	6,020,351	246,314
Other counterparties where the exposures are considered to be non-bank Mainland exposures	58,293	9,345	67,638	–
	<u>4,338,443</u>	<u>1,871,195</u>	<u>6,209,638</u>	<u>267,098</u>
As at 31 December 2010				
Mainland entities	67,192	52,149	119,341	20,784
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,633,226	1,816,705	6,449,931	282,623
Other counterparties where the exposures are considered to be non-bank Mainland exposures	78,137	20,012	98,149	–
	<u>4,778,555</u>	<u>1,888,866</u>	<u>6,667,421</u>	<u>303,407</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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	CNY	Others	Total
As at 30 June 2011			
Hong Kong dollar equivalents			
Spot assets	21,970	87,221	109,191
Spot liabilities	(16,128)	(83,995)	(100,123)
Forward purchases	147,677	187,298	334,975
Forward sales	(152,529)	(190,350)	(342,879)
Net options position	–	66	66
	<u>990</u>	<u>240</u>	<u>1,230</u>
Net long non-structural position			
	<u>30</u>	<u>(70)</u>	<u>(40)</u>
As at 31 December 2010			
Hong Kong dollar equivalents			
Spot assets	10,754	74,482	85,236
Spot liabilities	(7,584)	(75,800)	(83,384)
Forward purchases	11,512	54,369	65,881
Forward sales	(14,369)	(53,669)	(68,038)
Net options position	–	185	185
	<u>313</u>	<u>(433)</u>	<u>(120)</u>
Net long/(short) non-structural position			
	<u>29</u>	<u>(47)</u>	<u>(18)</u>

The net structural position as at 30 June 2011 comprised the Group's unremitted earnings of HK\$70,000,000 equivalent (31 December 2010: HK\$47,000,000) from a Macau Pataca (MOP) investment in Macau, and Renminbi investments of HK\$30,000,000 equivalent (31 December 2010: HK\$29,000,000) 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 AND ITS SUBSIDIARIES

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 2011	30 June 2010
Average liquidity ratio for the period	<u>30.9%</u>	<u>33.1%</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 Comparative figures

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

Hong Kong, 20 July 2011