

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 2012**

# 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 2012 as follows:

### UNAUDITED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
	Note	30 June 2012	30 June 2011
		HK\$'M	HK\$'M
Interest income	3	<b>3,260</b>	2,531
Interest expense	4	<b>(1,184)</b>	(565)
Net interest income		<b>2,076</b>	1,966
Net fee and commission income	5	<b>693</b>	641
Net income from financial instruments at fair value through profit or loss	6	<b>742</b>	732
Net income from financial investments	7	<b>96</b>	34
Other income	8	<b>90</b>	110
Total income		<b>3,697</b>	3,483
Total expenses	9	<b>(1,688)</b>	(1,681)
Profit before allowances for credit and other losses		<b>2,009</b>	1,802
Allowances for credit and other losses	10	<b>4</b>	(123)
Profit before income tax		<b>2,013</b>	1,679
Income tax expense	11	<b>(301)</b>	(251)
Profit attributable to shareholders		<b>1,712</b>	1,428

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June 2012	30 June 2011
	HK\$'M	HK\$'M
<b>Profit attributable to shareholders</b>	<u>1,712</u>	<u>1,428</u>
<b>Other comprehensive income</b>		
Available-for-sale financial investments		
– Net valuation taken to equity	63	61
– Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	–	3
– Transferred to income statement on sale	(83)	(12)
– Deferred income tax charged to equity	<u>(6)</u>	<u>(2)</u>
<b>Other comprehensive income attributable to shareholders, net of tax</b>	<u>(26)</u>	<u>50</u>
<b>Total comprehensive income attributable to shareholders</b>	<u><u>1,686</u></u>	<u><u>1,478</u></u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2012 HK\$'M	As at 31 December 2011 HK\$'M (restated)
<b>Assets</b>			
Cash and balances with banks	12	27,992	19,572
Placements with and advances to banks	13	19,103	14,328
Trading securities		9,940	8,858
Positive fair values for derivative financial instruments		5,104	7,034
Advances to customers less impairment allowances	14	184,271	194,062
Financial investments	15	23,001	28,163
Other assets		5,635	4,422
Deferred income tax assets		23	37
Properties and other fixed assets	16	2,601	2,653
– Investment properties		407	407
– Other properties and fixed assets		2,194	2,246
Total assets		<u>277,670</u>	<u>279,129</u>
<b>Liabilities</b>			
Deposits and balances from banks		19,272	21,945
Trading liabilities		8,035	6,574
Financial liabilities designated at fair value through profit or loss	17	1,446	965
Negative fair values for derivative financial instruments		5,076	7,315
Deposits from customers	18	186,066	184,970
Certificates of deposit issued	19	15,390	16,383
Other liabilities		8,929	9,476
Current income tax liabilities		526	251
Amount due to a jointly controlled entity		1,246	1,244
Subordinated liability	20	4,188	4,196
Total liabilities		<u>250,174</u>	<u>253,319</u>
<b>Equity</b>			
Share capital		7,000	7,000
Reserves		20,496	18,810
Total equity		<u>27,496</u>	<u>25,810</u>
Total liabilities and equity		<u>277,670</u>	<u>279,129</u>

## DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

### UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'M	Share premium HK\$'M	Capital reserve HK\$'M	Revaluation reserves HK\$'M	General reserve HK\$'M	Retained earnings HK\$'M	Total equity HK\$'M
Balance as at 1 January 2012							
– as previously reported	7,000	595	12	230	2,399	15,514	25,750
– adjustments due to change in accounting standard	–	–	–	16	–	44	60
As restated at 1 January 2012	7,000	595	12	246	2,399	15,558	25,810
Total comprehensive income	–	–	–	(26)	–	1,712	1,686
Balance as at 30 June 2012	<u>7,000</u>	<u>595</u>	<u>12</u>	<u>220</u>	<u>2,399</u>	<u>17,270</u>	<u>27,496</u>

As at 30 June 2012, HK\$1,327 million (31 December 2011: HK\$1,304 million) 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

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Share capital HK\$'M	Share premium HK\$'M	Capital reserve HK\$'M	Revaluation reserves HK\$'M	General reserve HK\$'M	Retained earnings HK\$'M	Total equity HK\$'M
Balance as at 1 January 2011							
– as previously reported	7,000	595	12	259	2,399	12,916	23,181
– adjustments due to change in accounting standard	–	–	–	16	–	38	54
As restated at 1 January 2011	7,000	595	12	275	2,399	12,954	23,235
Total comprehensive income	–	–	–	50	–	1,428	1,478
Balance as restated at 30 June 2011	<u>7,000</u>	<u>595</u>	<u>12</u>	<u>325</u>	<u>2,399</u>	<u>14,382</u>	<u>24,713</u>
Balance as at 1 July 2011							
– as previously reported	7,000	595	12	309	2,399	14,344	24,659
– adjustments due to change in accounting standard	–	–	–	16	–	38	54
As restated at 1 July 2011	<u>7,000</u>	<u>595</u>	<u>12</u>	<u>325</u>	<u>2,399</u>	<u>14,382</u>	<u>24,713</u>
Total comprehensive income							
– as previously reported	–	–	–	(79)	–	1,170	1,091
– adjustments due to change in accounting standard	–	–	–	–	–	6	6
– as restated	–	–	–	(79)	–	1,176	1,097
Balance as restated at 31 December 2011	<u>7,000</u>	<u>595</u>	<u>12</u>	<u>246</u>	<u>2,399</u>	<u>15,558</u>	<u>25,810</u>

## **DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES**

### **REVIEW OF ACTIVITIES**

During the period, the Bank's profit attributable to shareholders increased by 19.9% from the same period last year to HK\$1,712 million.

Total income increased by 6.1% to HK\$3,697 million. Net interest income increased by 5.6% to HK\$2,076 million, while net interest margin dropped by 19 basis points to 1.54% and increased by 2 basis points when compared to the second half of 2011. Non-interest income increased by 6.9% to HK\$1,621 million. Total expenses were stable at HK\$1,688 million. Staff costs rose by 11.6%, offset by 12.1% reduction in non-staff costs. Cost-to-income ratio improved to 45.7% compared to 48.3% in the first half of 2011. Allowances for credit and other losses decreased from HK\$123 million provision made in the first half of 2011 to a write-back of HK\$4 million.

Advances to customers decreased 5.0% from December 2011 to HK\$184 billion while customer deposits increased 0.6% from December 2011 to HK\$186 billion. The loan-to-deposit ratio was 98.4% compared to 104.5% in December 2011.

The Bank's financial position remains strong. Capital adequacy ratio stood at a comfortable level of 15.7% as at 30 June 2012, compared to 14.5% as at 31 December 2011. Average liquidity ratio was 40.5% for the first half of 2012, compared to 30.9% for the first half of 2011.



# **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 23.

### **2 Effect on financial statements on adoption of Amendments to HKAS 12 Income Taxes**

The Group has adopted the amendments to HKAS 12 Income Taxes during the period. The amendments introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value, where the presumption that the carrying amount of the investment property will be recovered entirely by sale can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset.

Previously, deferred tax was provided against revaluation gain on investment properties on the assumption that the carrying values will be recovered through use. With the adoption of the amendments to HKAS 12 for the period, the deferred tax arising on investment properties was reduced. The amendments have been applied retrospectively and the comparative figures have been restated.

### **3 Interest income**

Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK\$3,223 million (first half of 2011: HK\$2,500 million).

### **4 Interest expense**

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK\$1,172 million (first half of 2011: HK\$554 million).

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5 Net fee and commission income

	<b>For the six months ended</b>	
	<b>30 June 2012</b>	30 June 2011
	<b>HK\$'M</b>	HK\$'M
Fee and commission income	1,019	981
Fee and commission expense	<u>(326)</u>	<u>(340)</u>
Net fee and commission income	<u><b>693</b></u>	<u><b>641</b></u>
Comprising:		
– Wealth management	205	177
– Trade and remittances	185	180
– Credit card	113	93
– Loan-related	115	113
– Stock broking	17	29
– Deposit-related	11	11
– Investment banking	2	1
– Guarantees	7	7
– Others	<u>38</u>	<u>30</u>
	<u><b>693</b></u>	<u><b>641</b></u>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	543	517
– Trust or other fiduciary activities	11	10
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	304	300

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	For the six months ended	
	30 June 2012	30 June 2011
	HK\$'M	HK\$'M
Net trading income		
– Foreign exchange	624	601
– Interest rates, equities and commodities	133	142
	<u>757</u>	<u>743</u>
Net loss from financial instruments designated at fair value through profit or loss	(15)	(11)
	<u>742</u>	<u>732</u>

### 7 Net income from financial investments

	For the six months ended	
	30 June 2012	30 June 2011
	HK\$'M	HK\$'M
Debt securities		
– Available-for-sale	81	9
– Loans and receivables	3	11
Equity securities	12	14
	<u>96</u>	<u>34</u>
Of which dividend income from:		
– Listed investments	1	1
– Unlisted investments	11	9
	<u>12</u>	<u>10</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8 Other income

	For the six months ended	
	30 June 2012 HK\$'M	30 June 2011 HK\$'M
Net gain on disposal of properties and other fixed assets	61	90
Others	29	20
	<u>90</u>	<u>110</u>

### 9 Total expenses

	For the six months ended	
	30 June 2012 HK\$'M	30 June 2011 HK\$'M
Employee benefits		
– Salaries and other short term employee benefits	919	826
– Pensions	58	51
– Share based payments	15	12
Premises and equipment expenses excluding depreciation		
– Rental of premises	98	100
– Others	119	119
Depreciation	98	123
Auditor's remuneration	5	4
Computerisation expenses	123	143
Other operating expenses	253	303
	<u>1,688</u>	<u>1,681</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 10 Allowances for credit and other losses

	<b>For the six months ended</b>	
	<b>30 June 2012</b>	<b>30 June 2011</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Individual impairment allowances on advances to customers	(5)	18
Collective impairment allowances on advances to customers	5	62
Allowances for other credit related losses	(4)	43
	<u>(4)</u>	<u>123</u>
Individual impairment allowances on advances to customers		
– New allowances	101	130
– Releases	(102)	(105)
– Recoveries	(4)	(7)
	<u>(5)</u>	<u>18</u>
Collective impairment allowances on advances to customers		
– New allowances	120	92
– Releases	(102)	(16)
– Recoveries	(13)	(14)
	<u>5</u>	<u>62</u>
Allowances for other credit related losses		
– New allowances	–	43
– Releases	(4)	–
	<u>(4)</u>	<u>43</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11 Income tax expense

	For the six months ended	
	30 June 2012	30 June 2011
	HK\$'M	HK\$'M
Hong Kong profits tax	289	270
Overseas tax	3	3
	<hr/>	<hr/>
Current income tax	292	273
Deferred income tax	9	(22)
	<hr/>	<hr/>
	<b>301</b>	<b>251</b>
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at 16.5% (first half of 2011: 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.

### 12 Cash and balances with banks

	As at	As at
	30 June	31 December
	2012	2011
	HK\$'M	HK\$'M
Cash in hand	353	399
Balances with central banks	1,013	2,760
Balances with banks	26,626	16,413
	<hr/>	<hr/>
	<b>27,992</b>	<b>19,572</b>
	<hr/> <hr/>	<hr/> <hr/>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13 Placements with and advances to banks

	<b>As at 30 June 2012 HK\$'M</b>	As at 31 December 2011 HK\$'M
Remaining maturity		
– One year or less but over one month	<b>18,154</b>	11,544
– Over one year	<b>949</b>	2,784
	<b><u>19,103</u></b>	<b><u>14,328</u></b>

As at 30 June 2012, there were no impaired, overdue or rescheduled placements with and advances to banks (31 December 2011: Nil).

### 14 Advances to customers less impairment allowances

	<b>As at 30 June 2012 HK\$'M</b>	As at 31 December 2011 HK\$'M
Gross advances to customers	<b>185,979</b>	195,919
Less: Impairment allowances		
– Individually assessed	<b>(1,062)</b>	(1,142)
– Collectively assessed	<b>(646)</b>	(715)
	<b><u>184,271</u></b>	<b><u>194,062</u></b>
Comprising:		
– Trade bills	<b>33,355</b>	39,219
– Loans	<b>150,916</b>	154,843
	<b><u>184,271</u></b>	<b><u>194,062</u></b>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### Impaired advances

	As at 30 June 2012		As at 31 December 2011	
	HK\$'M	% of gross advances to customers	HK\$'M	% of gross advances to customers
Gross impaired advances	1,608	0.86	1,767	0.90
Individual impairment allowances	<u>(1,062)</u>		<u>(1,142)</u>	
	<u>546</u>		<u>625</u>	
Impaired advances covered by collateral	<u>535</u>		<u>634</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.

### 15 Financial investments

	As at 30 June 2012 HK\$'M	As at 31 December 2011 HK\$'M
Available-for-sale	22,423	27,263
Loans and receivables	<u>578</u>	<u>900</u>
	<u>23,001</u>	<u>28,163</u>

As at 30 June 2012, there were no impaired, overdue or rescheduled financial investments (31 December 2011: Nil).



# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 16 Properties and other fixed assets

	Freehold properties HK\$'M	Land and buildings HK\$'M	Furniture, fixtures and equipment HK\$'M	Subtotal HK\$'M	Investment properties HK\$'M	Total HK\$'M
Cost or valuation						
As at 1 January 2012	23	2,707	1,030	3,760	407	4,167
Additions	-	1	52	53	-	53
Disposals	-	(14)	(8)	(22)	-	(22)
As at 30 June 2012	<u>23</u>	<u>2,694</u>	<u>1,074</u>	<u>3,791</u>	<u>407</u>	<u>4,198</u>
Accumulated depreciation and impairment						
As at 1 January 2012	17	788	709	1,514	-	1,514
Charge for the period	-	28	70	98	-	98
Disposals	-	(8)	(7)	(15)	-	(15)
As at 30 June 2012	<u>17</u>	<u>808</u>	<u>772</u>	<u>1,597</u>	<u>-</u>	<u>1,597</u>
Net book value						
As at 30 June 2012	<u><u>6</u></u>	<u><u>1,886</u></u>	<u><u>302</u></u>	<u><u>2,194</u></u>	<u><u>407</u></u>	<u><u>2,601</u></u>
The analysis of cost or valuation of the above assets as at 30 June 2012 is as follows:						
At cost	23	2,694	1,074	3,791	-	3,791
At valuation	-	-	-	-	407	407
	<u><u>23</u></u>	<u><u>2,694</u></u>	<u><u>1,074</u></u>	<u><u>3,791</u></u>	<u><u>407</u></u>	<u><u>4,198</u></u>

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates as at 31 December 2011. 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)

### 16 Properties and other fixed assets (continued)

	Freehold properties HK\$'M	Land and buildings HK\$'M	Furniture, fixtures and equipment HK\$'M	Subtotal HK\$'M	Investment properties HK\$'M	Total HK\$'M
Cost or valuation						
As at 1 January 2011	23	2,813	1,020	3,856	368	4,224
Additions	–	5	80	85	–	85
Disposals	–	(111)	(70)	(181)	–	(181)
Fair value adjustment	–	–	–	–	39	39
As at 31 December 2011	<u>23</u>	<u>2,707</u>	<u>1,030</u>	<u>3,760</u>	<u>407</u>	<u>4,167</u>
Accumulated depreciation and impairment						
As at 1 January 2011	17	792	584	1,393	–	1,393
Charge for the year	–	58	171	229	–	229
Disposals	–	(62)	(46)	(108)	–	(108)
As at 31 December 2011	<u>17</u>	<u>788</u>	<u>709</u>	<u>1,514</u>	<u>–</u>	<u>1,514</u>
Net book value						
As at 31 December 2011	<u><u>6</u></u>	<u><u>1,919</u></u>	<u><u>321</u></u>	<u><u>2,246</u></u>	<u><u>407</u></u>	<u><u>2,653</u></u>
The analysis of cost or valuation of the above assets as at 31 December 2011 is as follows:						
At cost	23	2,707	1,030	3,760	–	3,760
At valuation	–	–	–	–	407	407
	<u><u>23</u></u>	<u><u>2,707</u></u>	<u><u>1,030</u></u>	<u><u>3,760</u></u>	<u><u>407</u></u>	<u><u>4,167</u></u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	<b>As at 30 June 2012 HK\$'M</b>	As at 31 December 2011 HK\$'M
Financial liabilities designated at fair value through profit or loss		
– Structured investment deposits (Note 18)	<b>1,283</b>	805
– Certificates of deposit issued (Note 19)	<b>163</b>	160
	<u><b>1,446</b></u>	<u>965</u>

### 18 Deposits from customers

	<b>As at 30 June 2012 HK\$'M</b>	As at 31 December 2011 HK\$'M
Deposits from customers		
– As stated in the balance sheet	<b>186,066</b>	184,970
– Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 17)	<b>1,283</b>	805
	<u><b>187,349</b></u>	<u>185,775</u>
Analysed by:		
– Demand deposits and current accounts	<b>21,460</b>	17,097
– Savings deposits	<b>59,261</b>	57,452
– Time, call and notice deposits	<b>106,628</b>	111,226
	<u><b>187,349</b></u>	<u>185,775</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 19 Certificates of deposit issued

	<b>As at 30 June 2012 HK\$'M</b>	As at 31 December 2011 HK\$'M
Certificates of deposit issued		
– At amortised cost	<b>11,820</b>	12,869
– Adjusted for fair value changes under fair value hedge	<b>3,570</b>	3,514
	<hr/>	<hr/>
As stated in the balance sheet	<b>15,390</b>	16,383
Reported as financial liabilities designated at fair value through profit or loss (Note 17)	<b>163</b>	160
	<hr/>	<hr/>
	<b>15,553</b>	16,543
	<hr/> <hr/>	<hr/> <hr/>

### 20 Subordinated liability

The subordinated loan (“Loan”) with principal amount of US\$540 million 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. Under the terms of the loan agreement dated 7 December 2006, the Bank had an option to repay the Loan in full on 13 December 2011. Pursuant to the supplemental agreement dated 12 December 2011, the Bank was granted an option to repay the Loan in full on 13 December 2011 or any interest payment date thereafter until maturity. Interest is payable quarterly and was charged at USD 3-month LIBOR plus 0.35% per annum up to 12 December 2011 and USD 3-month LIBOR plus 0.85% per annum thereafter.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21 Derivative financial instruments

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

**As at 30 June 2012**

<b>Derivatives held for trading</b>	<b>Contract/ notional amount HK\$'M</b>	<b>Credit risk- weighted amount HK\$'M</b>	<b>Positive fair value HK\$'M</b>	<b>Negative fair value HK\$'M</b>
Exchange rate contracts				
– Forwards	196,036	2,275	1,553	1,590
– Swaps	104,219	141	383	355
– Options purchased	164,756	5,346	1,817	–
– Options written	163,690	–	–	1,859
	<u>628,701</u>	<u>7,762</u>	<u>3,753</u>	<u>3,804</u>
Interest rate contracts				
– Futures	1,187	–	1	1
– Swaps	112,846	559	983	994
– Options purchased	1,644	–	19	–
– Options written	1,644	–	–	19
	<u>117,321</u>	<u>559</u>	<u>1,003</u>	<u>1,014</u>
Equity contracts	<u>307</u>	<u>6</u>	<u>2</u>	<u>2</u>
<b>Total derivatives held for trading</b>	<b><u>746,329</u></b>	<b><u>8,327</u></b>	<b><u>4,758</u></b>	<b><u>4,820</u></b>
<b>Derivatives designated and qualified as fair value hedges</b>				
Interest rate contracts				
– Swaps	<u>5,876</u>	<u>74</u>	<u>371</u>	<u>285</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21 Derivative financial instruments (continued)

As at 31 December 2011

Derivatives held for trading	Contract/ notional amount HK\$'M	Credit risk- weighted amount HK\$'M	Positive fair value HK\$'M	Negative fair value HK\$'M
Exchange rate contracts				
– Forwards	187,370	2,359	2,075	2,123
– Swaps	86,015	90	311	492
– Options purchased	152,980	6,991	3,298	–
– Options written	151,795	–	–	3,350
	<u>578,160</u>	<u>9,440</u>	<u>5,684</u>	<u>5,965</u>
Interest rate contracts				
– Futures	218	–	1	1
– Swaps	122,061	581	1,038	1,042
– Options purchased	852	–	12	–
– Options written	852	–	–	12
	<u>123,983</u>	<u>581</u>	<u>1,051</u>	<u>1,055</u>
Equity contracts	<u>234</u>	<u>2</u>	<u>1</u>	<u>1</u>
Total derivatives held for trading	<u><u>702,377</u></u>	<u><u>10,023</u></u>	<u><u>6,736</u></u>	<u><u>7,021</u></u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u>5,963</u>	<u>64</u>	<u>314</u>	<u>308</u>

The above tables include derivatives and embedded derivatives. The amounts (except credit risk-weighted 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\$25 million and HK\$29 million respectively (31 December 2011: HK\$16 million and HK\$14 million 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 as at 30 June 2012 and 31 December 2011 are the amounts which have been 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)

### 22 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 30 June 2012 HK\$'M</b>	As at 31 December 2011 HK\$'M
Direct credit substitutes	972	957
Transaction-related contingencies	1,146	1,116
Trade-related contingencies	9,450	8,172
Other commitments with an original maturity of not more than one year	4,729	2,425
Other commitments with an original maturity of more than one year	69	163
Other commitments which are unconditionally cancellable	<u>119,184</u>	<u>112,232</u>
	<u>135,550</u>	<u>125,065</u>
Credit risk-weighted amount	<u>12,947</u>	<u>11,847</u>

### 23 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)

### 23 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 2012 HK\$'M	As at 31 December 2011 HK\$'M
Core capital		
Paid up ordinary share capital	7,000	7,000
Share premium	595	595
Reserves	15,981	13,430
Profit and loss account	1,689	2,521
Deduct:		
Deferred tax assets	(43)	–
	<u>25,222</u>	<u>23,546</u>
Deductions from core capital	<u>(215)</u>	<u>(204)</u>
Core capital after deductions	<u>25,007</u>	<u>23,342</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	164	164
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	65	74
Regulatory reserve	97	82
Collective impairment allowances	75	75
Term subordinated liability	4,188	4,196
	<u>4,589</u>	<u>4,591</u>
Deductions from supplementary capital	<u>(215)</u>	<u>(205)</u>
Supplementary capital after deductions	<u>4,374</u>	<u>4,386</u>
Total capital base before deductions	29,811	28,137
Deductions from core capital and supplementary capital	<u>(430)</u>	<u>(409)</u>
Total capital base after deductions	<u>29,381</u>	<u>27,728</u>
Risk-weighted assets	<u>187,440</u>	<u>191,661</u>
Capital adequacy ratio		
Core capital ratio	13.4%	12.2%
Supplementary capital ratio	2.3%	2.3%
Total capital adequacy ratio	<u>15.7%</u>	<u>14.5%</u>



# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24 Cross-border claims

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

	Banks HK\$'M	Public sector entities HK\$'M	Others HK\$'M	Total HK\$'M
<b>As at 30 June 2012</b>				
Asia Pacific excluding Hong Kong	79,431	3,517	13,089	96,037
North and South America	2,024	2,271	522	4,817
Europe	1,226	6	735	1,967
Others	32	157	1,526	1,715
	<u>82,713</u>	<u>5,951</u>	<u>15,872</u>	<u>104,536</u>
<b>As at 31 December 2011</b>				
Asia Pacific excluding Hong Kong	73,356	2,083	13,749	89,188
North and South America	2,321	2,295	537	5,153
Europe	1,969	7	451	2,427
Others	111	159	1,379	1,649
	<u>77,757</u>	<u>4,544</u>	<u>16,116</u>	<u>98,417</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)

### 25 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 2012		As at 31 December 2011	
	Outstanding balance HK\$'M	Balance covered by collateral HK\$'M	Outstanding balance HK\$'M	Balance covered by collateral HK\$'M
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,593	2,592	2,108	2,100
– Property investment	28,038	27,076	30,294	29,363
– Financial concerns	923	629	1,701	1,297
– Stockbrokers	11	7	12	8
– Wholesale and retail trade	17,230	12,642	17,352	13,617
– Manufacturing	11,121	7,947	11,770	8,582
– Transport and transport equipment	11,025	10,511	10,816	10,395
– Recreational activities	30	29	28	28
– Information technology	127	87	114	86
– Others	6,214	5,005	5,431	4,118
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	754	754	851	851
– Loans for the purchase of other residential properties	36,800	36,800	39,688	39,688
– Credit card advances	6,462	–	6,408	–
– Others	7,800	2,549	8,039	2,946
	<b>129,128</b>	<b>106,628</b>	134,612	113,079
Trade finance	52,204	10,616	56,914	10,355
Loans for use outside Hong Kong	4,647	2,404	4,393	2,598
	<b>185,979</b>	<b>119,648</b>	195,919	126,032

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25 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\$'M	Individual impairment allowances HK\$'M	Collective impairment allowances HK\$'M
<b>As at 30 June 2012</b>			
Property investment	84	44	73
Loans for the purchase of other residential properties	22	–	2
Trade finance	490	309	148
<b>As at 31 December 2011</b>			
Property investment	108	44	61
Loans for the purchase of other residential properties	28	–	3
Trade finance	519	331	158

#### (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)

### 26 Overdue and rescheduled advances

#### (a) Overdue advances to customers

The overdue advances of the Bank are analysed as follows:

	As at 30 June 2012		As at 31 December 2011	
	HK\$'M	% of gross advances to customers	HK\$'M	% of gross advances to customers
Six months or less but over three months	233	0.13	180	0.09
One year or less but over six months	190	0.10	134	0.07
Over one year	1,096	0.59	1,209	0.62
	<u>1,519</u>	<u>0.82</u>	<u>1,523</u>	<u>0.78</u>
Individual impairment allowances made in respect of the above overdue advances	<u>1,005</u>		<u>967</u>	
Current market value of collateral held against the covered portion of the above overdue advances	<u>1,070</u>		<u>1,233</u>	
Covered portion of the above overdue advances	<u>605</u>		<u>688</u>	
Uncovered portion of the above overdue advances	<u>914</u>		<u>835</u>	

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26 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 2012		As at 31 December 2011	
	HK\$'M	% of gross advances to customers	HK\$'M	% of gross advances to customers
Rescheduled advances	<u>324</u>	0.17	<u>326</u>	0.17

#### (c) Repossessed assets

As at 30 June 2012, repossessed assets of the Bank amounted to HK\$19 million (31 December 2011: HK\$52 million).

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27 Non-bank Mainland exposures

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

	On-balance sheet exposures HK\$'M	Off-balance sheet exposures HK\$'M	Total HK\$'M	Individual impairment allowances HK\$'M
<b>As at 30 June 2012</b>				
Mainland entities	5,997	473	6,470	21
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,600	2,108	6,708	231
Other counterparties where the exposures are considered to be non-bank Mainland exposures	11	16	27	–
	<u>10,608</u>	<u>2,597</u>	<u>13,205</u>	<u>252</u>
<b>As at 31 December 2011</b>				
Mainland entities	5,872	585	6,457	21
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,178	1,679	6,857	244
Other counterparties where the exposures are considered to be non-bank Mainland exposures	56	23	79	–
	<u>11,106</u>	<u>2,287</u>	<u>13,393</u>	<u>265</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28 Currency concentrations

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

	USD HK\$'M	CNY HK\$'M	Others HK\$'M	Total HK\$'M
<b>As at 30 June 2012</b>				
<b>Hong Kong dollar equivalents</b>				
Spot assets	62,791	35,518	12,955	111,264
Spot liabilities	(53,734)	(31,258)	(26,480)	(111,472)
Forward purchases	147,455	115,072	21,090	283,617
Forward sales	(155,536)	(119,072)	(7,378)	(281,986)
Net options position	144	(2)	(133)	9
Net long non-structural position	<u>1,120</u>	<u>258</u>	<u>54</u>	<u>1,432</u>
Net structural position	<u>–</u>	<u>31</u>	<u>(61)</u>	<u>(30)</u>
<b>As at 31 December 2011</b>				
<b>Hong Kong dollar equivalents</b>				
Spot assets	69,872	32,824	15,414	118,110
Spot liabilities	(57,780)	(28,548)	(25,676)	(112,004)
Forward purchases	130,174	115,895	12,695	258,764
Forward sales	(141,881)	(120,101)	(2,366)	(264,348)
Net options position	(35)	–	79	44
Net long non-structural position	<u>350</u>	<u>70</u>	<u>146</u>	<u>566</u>
Net structural position	<u>–</u>	<u>31</u>	<u>(40)</u>	<u>(9)</u>

Structural foreign exchange positions arising from capital investments outside Hong Kong, mainly in Chinese Renminbi and Macau Pataca.

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)

### 29 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>30 June 2012</b>	30 June 2011
Average liquidity ratio for the period	<b><u>40.5%</u></b>	<b><u>30.9%</u></b>

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.

### 30 Comparative figures

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

Hong Kong, 20 July 2012