

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 2017**

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

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

## **REVIEW OF ACTIVITIES**

The Bank's profit attributable to shareholders for the period amounted to HK\$1,848 million, 58% higher than the same period in 2016 mainly resulting from lower credit allowances. Profit before allowances for credit and other losses grew 8% compared to the same period in 2016.

Total income grew 5% to HK\$4,506 million with higher net interest income and net fee and commission income. Net interest income increased by 12% to HK\$2,823 million benefited by the enhanced deposit franchise. Fee and commission income increased by 18% to HK\$1,158 million driven by wealth management and credit card business. Trading income was 29% lower due to reduced customer flow as a result of RMB depreciation.

Expenses for the period were HK\$2,209 million, 2% higher than the same period in 2016. Allowances for credit and other losses decreased by 89% to HK\$79 million.

Comparing to 31 December 2016, loans and advances to customers declined by 2% to HK\$143 billion while customer deposits remain stable at HK\$272 billion, the proportion of lower cost deposits has been increased contributing to the growth of the net interest income.

The Bank's financial position remained strong. Total capital adequacy ratio was solid at 19.7% as at 30 June 2017, a 1.4% point increase from 31 December 2016 position. Liquidity was ample, with the average liquidity coverage ratio at 135.8% for the quarter ended 30 June 2017, which was well above the minimum requirement of 80% as stipulated by the Hong Kong Monetary Authority.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED INCOME STATEMENT (unaudited)

In HK\$ million	Note	For the six months ended	
		30 June 2017	30 June 2016
Interest income	3	<b>3,612</b>	3,247
Interest expense	4	<b>(789)</b>	(729)
Net interest income		<b>2,823</b>	2,518
Net fee and commission income	5	<b>1,158</b>	983
Net trading income	6	<b>455</b>	637
Net income from investment securities	7	<b>27</b>	70
Other income	8	<b>43</b>	83
Total income		<b>4,506</b>	4,291
Total expenses	9	<b>(2,209)</b>	(2,172)
Profit before allowances for credit and other losses		<b>2,297</b>	2,119
Allowances for credit and other losses	10	<b>(79)</b>	(712)
Profit before income tax		<b>2,218</b>	1,407
Income tax expense	11	<b>(370)</b>	(234)
Profit attributable to shareholders		<b>1,848</b>	1,173

*The notes of page 8 to 29 form part of these condensed consolidated financial statements*

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
<b>Profit attributable to shareholders</b>	<u>1,848</u>	<u>1,173</u>
<b>Other comprehensive income</b>		
Available-for-sale financial investments		
– Net valuation taken to equity	157	124
– Transferred to income statement	(20)	(63)
– Deferred income tax charged to equity	<u>(21)</u>	<u>(10)</u>
<b>Other comprehensive income attributable to shareholders, net of tax</b>	<u>116</u>	<u>51</u>
<b>Total comprehensive income attributable to shareholders</b>	<u><u>1,964</u></u>	<u><u>1,224</u></u>

Items recorded in “Other comprehensive income” above will be reclassified subsequently to the income statement when specific conditions are met, e.g. when available-for-sale financial investments are disposed.

*The notes of page 8 to 29 form part of these condensed consolidated financial statements*

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

In HK\$ million	Note	As at 30 June 2017	As at 31 December 2016
<b>Assets</b>			
Cash and balances with central banks	12	1,135	3,201
Government securities and treasury bills	13	33,274	22,500
Due from banks	14	156,307	153,077
Derivatives	22	1,051	1,661
Bank and corporate securities	15	11,215	12,930
Loans and advances to customers	16	142,593	145,738
Other assets	17	4,809	7,514
Properties and other fixed assets	18	2,126	2,166
Goodwill and intangibles		172	177
		<u>352,682</u>	<u>348,964</u>
Total assets		<u>352,682</u>	<u>348,964</u>
<b>Liabilities</b>			
Due to banks		11,426	14,610
Deposits and balances from customers	19	271,665	274,151
Derivatives	22	826	1,935
Certificates of deposit issued	20	2,325	2,765
Other liabilities		25,549	16,180
Subordinated liability	21	4,215	4,188
		<u>316,006</u>	<u>313,829</u>
Total liabilities		<u>316,006</u>	<u>313,829</u>
<b>Equity</b>			
Share capital		8,995	8,995
Reserves		27,681	26,140
		<u>36,676</u>	<u>35,135</u>
Total equity		<u>36,676</u>	<u>35,135</u>
Total liabilities and equity		<u>352,682</u>	<u>348,964</u>

The notes of page 8 to 29 form part of these condensed consolidated financial statements

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

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

In HK\$ million	Share capital	Capital reserve	Revaluation reserves	General reserve	Retained earnings	Total equity
Balance as at 1 January 2016	7,595	12	42	2,399	23,367	33,415
Transferred to retained earnings on sale of investment properties	–	–	(3)	–	3	–
Total comprehensive income	–	–	51	–	1,173	1,224
Balance as at 30 June 2016	7,595	12	90	2,399	24,543	34,639
Issuance of preference share	1,400	–	–	–	–	1,400
Transferred to retained earnings on sale of investment properties	–	–	(15)	–	15	–
Total comprehensive income	–	–	(213)	–	709	496
Dividend (Note 1)	–	–	–	–	(1,400)	(1,400)
Balance as at 31 December 2016	<u>8,995</u>	<u>12</u>	<u>(138)</u>	<u>2,399</u>	<u>23,867</u>	<u>35,135</u>
Balance as at 1 January 2017	<b>8,995</b>	<b>12</b>	<b>(138)</b>	<b>2,399</b>	<b>23,867</b>	<b>35,135</b>
Total comprehensive income	–	–	116	–	1,848	1,964
Dividend (Note 2)	–	–	–	–	(423)	(423)
Balance as at 30 June 2017	<u><b>8,995</b></u>	<u><b>12</b></u>	<u><b>(22)</b></u>	<u><b>2,399</b></u>	<u><b>25,292</b></u>	<u><b>36,676</b></u>

As at 30 June 2017, HK\$995 million (31 December 2016: HK\$1,057 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.

(Note 1) Included the 2016 interim dividend of HK\$1,400 million paid to holder of ordinary shares.

(Note 2) Included the 2016 final dividend of HK\$400 million paid to holder of ordinary shares and the dividend of HK\$23 million paid to holder of preference shares.

*The notes of page 8 to 29 form part of these condensed consolidated financial statements*

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (unaudited)

In HK\$ millions	Note	For the six months ended	
		30 June 2017	30 June 2016
<b>Cash flows from operating activities</b>			
Profit before income tax		2,218	1,407
<b>Adjustments for non-cash items:</b>			
Net gain on disposal of properties and other fixed assets		–	(31)
Allowances for credit losses		79	712
Depreciation and amortisation		142	124
Advances written off net of recoveries		(204)	(257)
Revaluation for certificates of deposit issued		10	(3)
Amortisation of discount on certificates of deposit issued		–	1
Interest expense for certificates of deposit issued		43	59
Interest expense for subordinated liability		75	65
Profit before changes in operating assets and liabilities		2,363	2,077
<b>Increase/(decrease) in:</b>			
Due to banks		(3,184)	2,391
Deposits and balances from customers		(2,486)	1,222
Other liabilities and derivatives		7,899	13,092
<b>(Increase)/decrease in:</b>			
Due from banks		(15,705)	(18,944)
Government securities and treasury bills		(122)	833
Loans and advances to customers		3,251	5,979
Bank and corporate securities		1,814	(1,175)
Other assets and derivatives		3,305	5,084
Net cash (used in)/generated from operating activities before income tax		(2,865)	10,559
Hong Kong profits tax paid		–	–
Overseas tax paid		–	–
<b>Net cash (used in)/generated from operating activities</b>		<b>(2,865)</b>	<b>10,559</b>



# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (unaudited)

In HK\$ millions	Note	For the six months ended	
		30 June 2017	30 June 2016
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		(97)	(97)
Proceeds from disposal of properties and other fixed assets		—	85
<b>Net cash used in investing activities</b>		<u>(97)</u>	<u>(12)</u>
<b>Cash flows from financing activities</b>			
Dividend paid		(423)	—
Interest paid for certificates of deposits issued		(40)	(65)
Interest paid for subordinated liability		(79)	(70)
Redemption of certificates of deposit issued		(450)	(1,570)
<b>Net cash used in financing activities</b>		<u>(992)</u>	<u>(1,705)</u>
Exchange differences and other adjustments		27	5
<b>Net change in cash and cash equivalents</b>		<b>(3,927)</b>	8,847
<b>Cash and cash equivalents as at 1 January</b>		<u>61,983</u>	<u>40,281</u>
<b>Cash and cash equivalents as at 30 June</b>	26(b)	<u><u>58,056</u></u>	<u><u>49,128</u></u>

*The notes of page 8 to 29 form part of these condensed consolidated financial statements*

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

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

### **1 Scope of consolidation**

The condensed 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 ratios and leverage ratio on a combined basis including the Bank and its overseas branch that is different from the basis of consolidation for accounting purposes. The basis is set out in the Note 3.1 to the Regulatory Disclosure Statements. The disclosures of capital adequacy ratios and leverage ratio as required by section 24 and 24A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website <https://www.dbs.com/hongkong/investor/financial-results.page>.

### **2 Basis of preparation**

#### **(a) Accounting policies**

The accounting policies applied in preparing this condensed consolidated financial statements are in compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institution of Certificate Public Accountants and are the same as those applied in preparing the financial statements for the year ended 31 December 2016 as disclosed in the Annual Report and Financial Statements for 2016. Certain comparative figures have been re-presented to conform to current period presentation.

During the period, the Group has adopted the following amendments to standards which have insignificant or no effect on the condensed consolidated financial statements:

- Disclosure initiative (Amendments to HKAS 7, Statement of Cash Flow)
- “Recognition of deferred tax assets for unrealised losses” Amendments to HKAS 12 Income taxes
- Annual Improvements to HKFRSs 2014-2016 Cycle

Information on future accounting development and their potential effect on the condensed consolidated financial statements are provided in note 2 on the consolidated financial statements of the Group’s 2016 Annual Report.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 2 Basis of preparation (continued)

#### (a) Accounting policies (continued)

##### *Early adoption of HKFRS 9 Own Credit Risk*

Hong Kong Financial Reporting Standard (“HKFRS”) 9 Financial Instruments, which has a mandatory adoption date of 1 January 2018, allows for the early adoption of the requirements for the presentation of gains and losses on financial liabilities at fair value through profit or loss. Under HKFRS 9, changes to the fair value of such financial liabilities that is attributable to the Group’s own credit risk are taken to retained earnings through other comprehensive income. The amounts are not transferred to the income statement even when realised. The Group has decided to early adopt this new presentation from 1 January 2017. The effect on the condensed consolidated financial statements is insignificant.

#### (b) Critical accounting estimates

The preparation of interim financial statements requires management to exercise judgements, use estimates and make assumptions that affect the application of policies and reported amounts in the financial statements. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from these estimates. In preparing this condensed consolidated financial statements, critical accounting estimates and assumptions used that are significant to the interim financial statements, and areas involving a higher degree of judgement and complexity were the same as those disclosed in the consolidated financial statements for the year ended 31 December 2016.

#### (c) Condensed consolidated financial statements and statutory financial statements

The financial information relating to the year ended 31 December 2016 that is included in the Interim Report 2017 as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 2 Basis of preparation (continued)

#### (d) Compliance with the Banking (Disclosure) Rules

The condensed consolidated financial statements and Regulatory Disclosure Statements fulfill the disclosure requirements in accordance with the Banking (Disclosure) Rules.

### 3 Interest income

Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK\$3,557 million (first half of 2016: HK\$3,210 million).

### 4 Interest expense

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK\$753 million (first half of 2016: HK\$722 million).

### 5 Net fee and commission income

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Fee and commission income	1,351	1,231
Less: Fee and commission expense	<u>(193)</u>	<u>(248)</u>
Net fee and commission income	<u>1,158</u>	<u>983</u>
Comprising:		
– Wealth management	475	381
– Trade and transaction services (Note)	283	246
– Cards	186	139
– Loan-related	122	126
– Stockbroking	16	13
– Others	<u>76</u>	<u>78</u>
	<u>1,158</u>	<u>983</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 5 Net fee and commission income (continued)

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	509	520
– Trust or other fiduciary activities	16	11
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	160	228

Note: Trade and transaction services includes trade & remittances, guarantees, deposit-related fees and investment banking.

### 6 Net trading income

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Net trading income		
– Foreign exchange	424	584
– Interest rates, equities and others	80	74
	<u>504</u>	<u>658</u>
Net loss from financial instruments designated at fair value through profit or loss	(49)	(21)
	<u>455</u>	<u>637</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 7 Net income from investment securities

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Available-for-sale debt securities	20	63
Dividend income from unlisted equity securities	7	7
	<u>27</u>	<u>70</u>

### 8 Other income

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Net gain on disposal of properties and other fixed assets	–	31
Rental income	20	25
Others	23	27
	<u>43</u>	<u>83</u>

### 9 Total expenses

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Employee benefits		
– Salaries and other short term employee benefits	1,206	1,195
– Pensions	74	71
– Share-based compensation	28	28
Premises and equipment expenses excluding depreciation		
– Rental of premises	152	135
– Others	82	79
Depreciation	137	119
Auditor's remuneration	5	5
Computerisation expenses	207	216
Other operating expenses	318	324
	<u>2,209</u>	<u>2,172</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 10 Allowances for credit and other losses

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Individual impairment allowances on loans and advances to customers	–	215
Collective impairment allowances on loans and advances to customers	<b>98</b>	150
Individual impairment allowances on other assets	<b>(19)</b>	343
Off-balance sheet credit exposures	–	4
	<u>79</u>	<u>712</u>
Individual impairment allowances on loans and advances to customers		
– New allowances	<b>82</b>	270
– Releases	<b>(79)</b>	(52)
– Recoveries	<b>(3)</b>	(3)
	<u>–</u>	<u>215</u>
Collective impairment allowances on loans and advances to customers		
– New allowances	<b>191</b>	223
– Releases	<b>(68)</b>	(49)
– Recoveries	<b>(25)</b>	(24)
	<u>98</u>	<u>150</u>
Individual impairment allowances on other assets		
– New allowances	<b>2</b>	365
– Releases	<b>(21)</b>	(22)
– Recoveries	–	–
	<u>(19)</u>	<u>343</u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 11 Income tax expense

In HK\$ million	For the six months ended	
	30 June 2017	30 June 2016
Hong Kong profits tax	375	237
Overseas tax	7	3
Current income tax	382	240
Deferred income tax	(12)	(6)
	<u>370</u>	<u>234</u>

Hong Kong profits tax has been provided at 16.5% (first half of 2016: 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 central banks

In HK\$ million	As at	As at
	30 June 2017	31 December 2016
Cash in hand	565	615
Balances with central banks	570	2,586
	<u>1,135</u>	<u>3,201</u>

### 13 Government securities and treasury bills

In HK\$ million	As at	As at
	30 June 2017	31 December 2016
Held for trading	17,921	8,300
Available-for-sale	15,353	14,200
	<u>33,274</u>	<u>22,500</u>

As at 30 June 2017, there were no impaired, overdue or rescheduled available-for-sale financial assets (31 December 2016: Nil).



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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### 14 Due from banks

In HK\$ million	As at 30 June 2017	As at 31 December 2016
Balances with banks	<u>7,635</u>	<u>4,935</u>
Placements with and advances to banks		
Remaining maturity		
– Within one month	49,980	59,529
– One year or less but over one month	46,438	43,173
– Over one year	<u>52,254</u>	<u>45,440</u>
	<u>148,672</u>	<u>148,142</u>
	<u>156,307</u>	<u>153,077</u>

As at 30 June 2017, there were no impaired, overdue or rescheduled placements with and advances to banks (31 December 2016: Nil).

#### 15 Bank and corporate securities

In HK\$ million	As at 30 June 2017	As at 31 December 2016
Held for trading	3	803
Available-for-sale	10,108	11,060
Loans and receivables	<u>1,104</u>	<u>1,067</u>
	<u>11,215</u>	<u>12,930</u>

As at 30 June 2017, there were no impaired, overdue or rescheduled available-for-sale and loans and receivables financial assets (31 December 2016: Nil).

As at 30 June 2017, the fair value of the above debt securities classified as loans and receivables is HK\$1,105 million (31 December 2016: HK\$1,066 million).

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 16 Loans and advances to customers

In HK\$ million	As at 30 June 2017	As at 31 December 2016
Gross loans and advances to customers	144,532	147,755
Less: Impairment allowances		
– Individually assessed	(1,154)	(1,214)
– Collectively assessed	(785)	(803)
	<u>142,593</u>	<u>145,738</u>
Comprising:		
– Trade bills	4,859	5,784
– Loans	137,734	139,954
	<u>142,593</u>	<u>145,738</u>

#### Impaired advances

	As at 30 June 2017	As at 31 December 2016
	HK\$ million	HK\$ million
	% of gross loans and advances to customers	% of gross loans and advances to customers
Gross impaired advances	3,274	3,661
Individual impairment allowances	(1,154)	(1,214)
	<u>2,120</u>	<u>2,447</u>
Impaired advances covered by collateral	<u>1,667</u>	<u>1,915</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.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 17 Other assets

The balance as at 30 June 2017 included individual impairment allowances of HK\$231 million (31 December 2016: HK\$316 million).

### 18 Properties and other fixed assets

In HK\$ million	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
Cost or valuation						
As at 1 January 2017	23	2,533	1,545	4,101	5	4,106
Additions	-	-	97	97	-	97
Disposals	-	-	-	-	-	-
As at 30 June 2017	23	2,533	1,642	4,198	5	4,203
Accumulated depreciation and impairment						
As at 1 January 2017	17	947	976	1,940	-	1,940
Charge for the period	-	28	109	137	-	137
Disposals	-	-	-	-	-	-
As at 30 June 2017	17	975	1,085	2,077	-	2,077
Net book value						
As at 30 June 2017	6	1,558	557	2,121	5	2,126
The analysis of cost or valuation of the above assets as at 30 June 2017 is as follows:						
At cost	23	2,533	1,642	4,198	-	4,198
At valuation	-	-	-	-	5	5
	23	2,533	1,642	4,198	5	4,203

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates (Surveyors) as of 31 December 2016. The fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). It is an estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

In HK\$ million	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
Cost or valuation						
As at 1 January 2016	23	2,540	1,461	4,024	327	4,351
Additions	–	5	249	254	–	254
Disposals	–	(12)	(165)	(177)	(323)	(500)
Fair value adjustment	–	–	–	–	1	1
As at 31 December 2016	<u>23</u>	<u>2,533</u>	<u>1,545</u>	<u>4,101</u>	<u>5</u>	<u>4,106</u>
Accumulated depreciation and impairment						
As at 1 January 2016	17	902	949	1,868	–	1,868
Charge for the year	–	57	189	246	–	246
Disposals	–	(12)	(162)	(174)	–	(174)
As at 31 December 2016	<u>17</u>	<u>947</u>	<u>976</u>	<u>1,940</u>	<u>–</u>	<u>1,940</u>
Net book value						
As at 31 December 2016	<u><u>6</u></u>	<u><u>1,586</u></u>	<u><u>569</u></u>	<u><u>2,161</u></u>	<u><u>5</u></u>	<u><u>2,166</u></u>
The analysis of cost or valuation of the above assets as at 31 December 2016 is as follows:						
At cost	23	2,533	1,545	4,101	–	4,101
At valuation	–	–	–	–	5	5
	<u><u>23</u></u>	<u><u>2,533</u></u>	<u><u>1,545</u></u>	<u><u>4,101</u></u>	<u><u>5</u></u>	<u><u>4,106</u></u>

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### 19 Deposits and balances from customers

In HK\$ million	As at 30 June 2017	As at 31 December 2016
Deposits from customers, at amortised cost	268,739	270,843
Structured investment deposits classified as financial liabilities designated at fair value through profit or loss	2,926	3,308
	<u>271,665</u>	<u>274,151</u>
Analysed by:		
– Demand deposits and current accounts	52,119	45,326
– Savings deposits	115,152	115,073
– Time, call and notice deposits	104,394	113,752
	<u>271,665</u>	<u>274,151</u>

#### 20 Certificates of deposit issued

In HK\$ million	As at 30 June 2017	As at 31 December 2016
Certificates of deposit issued, measured at amortised cost	2,325	2,765

#### 21 Subordinated liability

The Bank issued a subordinated loan of US\$540 million to its intermediate holding company, DBS Bank Ltd, on 12 December 2012. On 28 August 2014, DBS Bank Ltd assigned the subordinated loan to its parent holding company, DBS Group Holdings Ltd. The terms and conditions remain unchanged after the assignment. Interest is paid quarterly each year at USD 3-month LIBOR plus 2.5% per annum. The subordinated loan matures on 12 December 2022, and is repayable on 13 December 2017 or any interest payment date thereafter. The terms require the subordinated loan to be converted into ordinary shares if and when the Hong Kong Monetary Authority (“HKMA”) notifies the Bank that a conversion of the instrument, or a public sector injection of capital (or equivalent support), is necessary, without which the Bank would become non-viable. The subordinated loan is Basel III-compliant and qualify as Tier 2 capital of the Bank under the Banking (Capital) Rules made by the HKMA.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 22 Derivatives

The following is a summary of each significant type of derivatives:

In HK\$ million	Contract/ notional amount	Credit risk- weighted amount	Positive fair values	Negative fair values
<b>As at 30 June 2017</b>				
<b>Derivatives held for trading</b>				
Foreign exchange derivatives				
– Forwards	34,805	139	60	119
– Swaps	84,716	177	630	417
– Options purchased	7,453	49	33	5
– Options written	9,279	11	5	37
	<u>136,253</u>	<u>376</u>	<u>728</u>	<u>578</u>
Interest rate derivatives				
– Futures	–	–	–	–
– Swaps	18,643	100	192	227
– Option purchased	1,486	6	2	–
– Option written	1,486	–	–	2
	<u>21,615</u>	<u>106</u>	<u>194</u>	<u>229</u>
Equity derivatives	<u>1,360</u>	<u>42</u>	<u>12</u>	<u>12</u>
Commodity derivatives	<u>87</u>	<u>6</u>	<u>5</u>	<u>5</u>
Total derivatives held for trading	<u><u>159,315</u></u>	<u><u>530</u></u>	<u><u>939</u></u>	<u><u>824</u></u>
<b>Derivatives designated and qualified as fair value hedges</b>				
Interest rate derivatives				
– Swaps	<u>2,459</u>	<u>49</u>	<u>112</u>	<u>2</u>
Total	<u><u>161,774</u></u>	<u><u>579</u></u>	<u><u>1,051</u></u>	<u><u>826</u></u>

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 22 Derivatives (continued)

In HK\$ million	Contract/ notional amount	Credit risk- weighted amount	Positive fair values	Negative fair values
As at 31 December 2016				
Derivatives held for trading				
Foreign exchange derivatives				
– Forwards	34,875	513	360	391
– Swaps	89,718	138	476	757
– Options purchased	23,887	590	417	70
– Options written	26,058	112	70	434
	<u>174,538</u>	<u>1,353</u>	<u>1,323</u>	<u>1,652</u>
Interest rate derivatives				
– Futures	16	–	–	–
– Swaps	22,919	81	218	234
– Options purchased	760	–	–	–
– Options written	760	–	–	–
	<u>24,455</u>	<u>81</u>	<u>218</u>	<u>234</u>
Equity derivatives	<u>1,064</u>	<u>33</u>	<u>14</u>	<u>14</u>
Commodity derivatives	<u>64</u>	<u>4</u>	<u>3</u>	<u>3</u>
Total derivatives held for trading	<u>200,121</u>	<u>1,471</u>	<u>1,558</u>	<u>1,903</u>
Derivatives designated and qualified as fair value hedges				
Interest rate derivatives				
– Swaps	<u>3,084</u>	<u>45</u>	<u>103</u>	<u>32</u>
Total	<u>203,205</u>	<u>1,516</u>	<u>1,661</u>	<u>1,935</u>

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### 22 Derivatives (continued)

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 contract or notional amounts of these instruments indicate the volume of transactions outstanding as at the end of the reporting period; they do not represent amounts at risk.

The credit risk-weighted amounts as at 30 June 2017 and 31 December 2016 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.

#### 23 Contingent liabilities and commitments

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

In HK\$ million	As at 30 June 2017	As at 31 December 2016
Direct credit substitutes	343	367
Transaction-related contingencies	3,305	2,116
Trade-related contingencies	7,899	9,048
Forward forward deposits placed	–	2,863
Other commitments with an original maturity of not more than one year	2,196	2,082
Other commitments with an original maturity of more than one year	2,470	1,260
Other commitments which are unconditionally cancellable	144,025	151,499
	160,238	169,235
Credit risk-weighted amount	15,618	16,726

The information is prepared with reference to the Banking (Capital) Rules. For accounting purposes, acceptances are recognised on the statement of financial position in “Other assets” and “Other liabilities” in accordance with HKAS 39 Financial Instruments: Recognition and Measurement. For the purpose of the Banking (Capital) Rules, acceptances are included in the capital adequacy calculation as if they were trade-related contingencies. The contract amount of acceptances included in the table above was HK\$1,591 million (31 December 2016: HK\$1,538 million).



# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 24 Fair value of financial instrument

#### (a) Valuation process

The valuation processes within the Group are governed by the Valuation Policy and Supporting Standards. These policy and standards apply to financial assets and liabilities where mark-to-market or model valuation is required. The overall framework is endorsed by Group Market and Liquidity Risk Committee and Risk Executive Committee before approval by the Board Risk Management Committee.

The Valuation Policy and supporting Standards govern the revaluation of all financial assets and liabilities that are fair value measured, covering both market prices as well as model inputs. Financial assets and liabilities are marked directly using reliable and independent market prices or by using reliable and independent market parameters (as model inputs) in conjunction with a valuation model. Products with a liquid market or those traded via an exchange will fall under the former while most over-the-counter (“OTC”) products will form the latter. Market parameters include interest rate yield curves, credit spreads, exchange prices, dividend yields, option volatilities and foreign exchange rates.

Valuation models go through an assurance process carried out by the Risk Management Group, independent of the model developers. This assurance process would review the underlying methodology including its logic and conceptual soundness together with the model inputs and outputs. Model assurances are conducted prior to implementation and subject to regular review or when there are significant changes arising from market or portfolio changes. Where necessary, the Group also imposes model reserves and other adjustments in determining fair value. Models are approved by the Group Market and Liquidity Risk Committee.

The majority of OTC derivatives are traded in active markets. Valuations are determined using generally accepted models (discounted cash flows, Black-Scholes model, interpolation techniques) based on quoted market prices for similar instruments or underlyings or market parameters.

A process of independent price verification (“IPV”) is in place to establish the accuracy of the market parameters used when the marking is performed by the Front Office. The IPV process entails independent checks to compare traders’ marks to independent sources such as broker/dealer sources or market consensus providers. The results of the IPV are reviewed by independent control functions on a monthly basis.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 24 Fair value of financial instrument (continued)

#### (a) Valuation process (continued)

For illiquid financial instruments where mark-to-market is not possible, the Group will value these products using an approved valuation model. Prices and parameters used as inputs to the model or to any intermediate technique involving a transformation process must be derived using approved market reliable sources. Where possible, the inputs must be checked against multiple sources for reliability and accuracy. Reliance will be placed on the model assurance process established by Risk Management Group for assurance of valuation models as fit for purpose.

The Group uses various market accepted benchmark interest rates such as LIBOR and Swap Offer Rates to determine the fair value of the financial instruments.

Where unobservable inputs are used in these models resulting in Level 3 classification, valuation adjustments or reserves will be taken for the purpose of adjusting for uncertainty in valuations. Valuation adjustment or reserve methodologies are used to substantiate the unobservable inputs and attempt to quantify the level of uncertainty in valuations. Such methodologies are governed by the Valuation Policy and supporting Standards and require approval by the Group Market and Liquidity Risk Committee.

The main valuation adjustments and reserves are described below:

#### ***Model and Parameter Uncertainty Adjustments***

Valuation uncertainties may occur during fair value measurement either due to uncertainties in the required input parameters or uncertainties in the modeling methods used in the valuation process. In such situations, adjustments may be necessary to take these factors into account.

For example, where market data such as prices or rates for an instrument are no longer observable after an extended period of time, these inputs used to value the financial instruments may no longer be relevant in the current market conditions. In such situations, adjustments may be necessary to address the pricing uncertainty arising from the use of stale market data inputs.

#### ***Credit Valuation Adjustments***

Credit valuation adjustments are taken to reflect the impact on fair value of counterparty credit risk. Credit valuation adjustments are based upon the creditworthiness of the counterparties, magnitude of the current or potential exposure on the underlying transactions, netting and collateral arrangements, and the maturity of the underlying transactions.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 24 Fair value of financial instrument (continued)

#### (a) Valuation process (continued)

##### ***Day 1 Profit or Loss (P&L) Reserve***

In situations where the market for an instrument is not active and its fair value is established using a valuation model based on significant unobservable market parameters, Day 1 P&L reserve is utilised to defer the P&L arising from the difference between the transaction price and the model value. A market parameter is defined as being significant when its impact on the Day 1 P&L is greater than an internally determined threshold. The Day 1 P&L reserve is released to profit or loss as the parameters become observable or the transaction closed out or amortised over the duration of the transaction. As at 30 June 2017, there was no Day 1 P&L reserve (31 December 2016: Nil).

##### ***Bid Offer Adjustments***

The Group often holds, at varying points in time, both long or short positions in financial instruments which are valued using mid market levels. Bid offer adjustments are then made to account for close-out costs.

#### (b) Fair value hierarchy

The fair value hierarchy accords the highest level to observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities and the lowest level to unobservable inputs. The fair value measurement of each financial instrument is categorised in accordance to the same level of the fair value hierarchy as the input with the lowest level that is significant to the entire measurement. If unobservable inputs are deemed as significant, the financial instrument will be categorised as Level 3.

Financial instruments that are valued using quoted prices in active markets are classified as Level 1 of the valuation hierarchy. These would include government and sovereign securities, listed equities and corporate debt securities which are actively traded. Derivatives contracts which are traded in an active exchange market are also classified as Level 1 of the valuation hierarchy.

Where fair value is determined using quoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group will determine the fair value based on valuation techniques that use market parameters as inputs including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include corporate debt securities, repurchase, reverse repurchase agreements and most of the Group's over-the-counter derivatives.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 24 Fair value of financial instrument (continued)

#### (b) Fair value hierarchy (continued)

The Group classifies financial instruments as Level 3 when there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value. These would include all input parameters which are derived from historical data for example asset correlations or certain volatilities as well as unquoted equity securities. The fair value of unquoted equity securities is measured in comparison with recent transactions in the equity of the company in question or comparable companies in similar industries. Level 3 inputs also include all quoted security prices that have not been updated for more than 3 months, quoted proxies in active markets for non-similar asset classes (e.g. bonds valued using credit default swap spreads), as well as prices/valuations that are obtained from counterparties. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The following table presents assets and liabilities measured at fair value, classified by level of the fair value hierarchies:

In HK\$ millions	Level 1	Level 2	Level 3	Total
<b>As at 30 June 2017</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	17,921	–	–	17,921
– Bank and corporate securities	1	2	–	3
Available-for-sale financial assets				
– Government securities and treasury bills	15,178	175	–	15,353
– Bank and corporate securities	9,966	112	–	10,078
Derivatives	–	1,051	–	1,051
<b>Liabilities</b>				
Payable in respect of short sale of securities	17,000	–	–	17,000
Financial liabilities designated at fair value through profit or loss	–	2,926	–	2,926
Derivatives	–	826	–	826

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 24 Fair value of financial instrument (continued)

#### (b) Fair value hierarchy (continued)

In HK\$ millions	Level 1	Level 2	Level 3	Total
<b>As at 31 December 2016</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	8,300	–	–	8,300
– Bank and corporate securities	550	253	–	803
Available-for-sale financial assets				
– Government securities and treasury bills	14,006	194	–	14,200
– Bank and corporate securities	10,920	11	100	11,031
Derivatives	–	1,661	–	1,661
<b>Liabilities</b>				
Payable in respect of short sale of securities				
	7,812	–	–	7,812
Financial liabilities designated at fair value through profit or loss				
Derivatives	–	3,308	–	3,308
	–	1,935	–	1,935

During the first half of 2017, there were no transfers between Level 1 and Level 2 (2016: Nil), while the Level 3 financial assets decreased from HK\$100 million to HK\$ nil due to transfer out during the period as market parameters become observable. The Group's policy is to recognise transfers between the levels of the fair value hierarchy as at the end of the reporting period during the change occurred.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### 24 Fair value of financial instrument (continued)

##### (c) Fair value of financial assets and liabilities not carried at fair value

For financial assets and liabilities not carried at fair value on the financial statements, the Group has ascertained that their fair values were not materially different from the carrying amounts at year end as shown below. The bases of arriving at their fair values are as follows:

##### *(i) Due from banks*

The estimated fair value of placements with and advances to banks is based on the discounted cash flows using the prevailing money market interest rates for placements and advances with similar remaining maturity.

##### *(ii) Loans and advances to customers*

The fair value approximates their carrying amount as majority of the loans and advances to customers are on floating rate terms.

##### *(iii) Bank and corporate securities – loans and receivables*

The fair values are determined based on independent market quotes, where available. Where market prices are not available, fair values are estimated using discounted cash flow method. The fair value is set out in Note 15.

##### *(iv) Due to banks and deposits and balances from customers*

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of deposits and other borrowings with fixed interest rates is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

##### *(v) Certificates of deposit issued*

The estimated fair value of certificates of deposit issued is based on discounted cash flows using the prevailing money market interest rates with similar remaining maturity.

##### *(vi) Subordinated liability*

The fair value of subordinated liability approximates its carrying amount as it is on floating rate term and bears interest at prevailing market interest rate.

# DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### 25 Material related-party transactions

There were no changes in the related party transaction described in 2016 Annual report that have had a material impact on the financial position or performance of the Group in the six months ended 30 June 2017.

### 26 Notes to the condensed consolidated cash flow statement

#### (a) Analysis of changes in financial activities during the period

In HK\$ million	Certificates of deposit issued	Subordinated liability
Balance as at 1 January 2017	2,765	4,188
Cash outflow from financing activities	(450)	–
Revaluation	10	–
Exchange differences and other adjustments	–	27
	<u>2,325</u>	<u>4,215</u>
Balance as at 30 June 2017	<u>2,325</u>	<u>4,215</u>
Balance as at 1 January 2016	4,479	4,185
Cash outflow from financing activities	(1,570)	–
Revaluation	(3)	–
Amortisation of discount	1	–
Exchange differences and other adjustments	–	5
	<u>2,907</u>	<u>4,190</u>
Balance as at 30 June 2016	<u>2,907</u>	<u>4,190</u>

#### (b) Analysis of the balances of cash and cash equivalents

In HK\$ million	As at 30 June 2017	As at 30 June 2016
Cash and balances with central banks	1,135	1,309
Due from banks		
– Balances with banks	7,635	2,461
– Placements with and advances to banks repayable with original maturity within three months	36,341	29,020
Bills and notes repayable with original maturity within three months	12,945	16,338
	<u>58,056</u>	<u>49,128</u>