

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 2019**

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 six months ended 30 June 2019 amounted to HK\$2,937 million. If property disposal gain of HK\$484 million was excluded from 2018 results, profit attributable to shareholders increased by 20.1% mainly from the 23.6% increase in net interest income while non-interest income was largely flat. The growth in net interest income was mainly driven by increase in interest rate.

Expenses for the period were HK\$2,644 million, 7.0% higher than last year mainly attributable to the investment in resources for business growth including strategic initiatives. Cost to income ratio excluding property disposal gain improved to 41.3% from 44.6% a year ago. Allowances for credit and other losses were HK\$195 million for the period.

Comparing to 31 December 2018, loans and advances to customers decreased by 4.6% to HK\$155 billion and customer deposits dropped slightly by 0.5% to HK\$362 billion.

The Bank's financial position remained strong. Total capital adequacy ratio was solid at 19.0% as at 30 June 2019. Liquidity was ample, with the average liquidity coverage ratio at 159% for the quarter ended 30 June 2019, which was well above the minimum requirement of 100% as stipulated by the Hong Kong Monetary Authority.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT (unaudited)

In HK\$ millions	Note	For the six months ended	
		30 June 2019	30 June 2018*
Interest income	3	6,527	4,896
Interest expense	4	(2,044)	(1,268)
Net interest income		4,483	3,628
Net fee and commission income	5	1,579	1,574
Net trading income	6	257	293
Net income from investment securities	7	39	4
Other income	8	39	526
Total income		6,397	6,025
Total expenses	9	(2,644)	(2,470)
Profit before allowances for credit and other losses		3,753	3,555
Allowances for credit and other losses	10	(195)	(134)
Profit before income tax		3,558	3,421
Income tax expense	11	(621)	(492)
Profit attributable to shareholders		2,937	2,929

* In accordance with the principles of merger accounting, 2018 figures have been restated due to the acquisition of DBS Vickers (Hong Kong) Limited's retail brokerage business. Please refer to note 2.1(a) for more details.

The notes of page 8 to 34 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\$ millions	For the six months ended	
	30 June 2019	30 June 2018*
Profit attributable to shareholders	2,937	2,929
Other comprehensive income:		
Items that may be reclassified subsequently to income statement:		
Debt instruments classified at fair value through other comprehensive income		
– Net valuation taken to equity	128	(61)
– Transferred to income statement	(33)	4
– Deferred income tax (debited)/credited to equity	(16)	9
Cash flow hedge		
– Net valuation taken to equity	285	–
– Transferred to income statement	(104)	–
– Deferred income tax debited to equity	(30)	–
Items that will not be reclassified to income statement:		
Equity instruments classified at fair value through other comprehensive income		
– Net valuation taken to equity	(1)	(1)
Other comprehensive income attributable to shareholders, net of tax	229	(49)
Total comprehensive income attributable to shareholders	3,166	2,880

* In accordance with the principles of merger accounting, 2018 figures have been restated due to the acquisition of DBS Vickers (Hong Kong) Limited's retail brokerage business. Please refer to note 2.1(a) for more details.

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DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

In HK\$ millions	Note	As at 30 June 2019	As at 31 December 2018
Assets			
Cash and balances with central banks	13	2,462	3,028
Government securities and treasury bills	14	49,700	38,289
Due from banks	15	227,011	222,057
Derivatives	23	749	471
Bank and corporate securities	16	9,768	9,418
Loans and advances to customers	17	154,684	162,171
Other assets	18	6,742	7,893
Properties and other fixed assets	19	4,493	2,166
Goodwill		168	168
		<hr/>	<hr/>
Total assets		<u>455,777</u>	<u>445,661</u>
Liabilities			
Due to banks		9,889	9,880
Deposits and balances from customers	20	361,891	363,658
Derivatives	23	733	840
Certificates of deposit issued	21	4,245	5,558
Other liabilities		33,729	23,544
Subordinated liability	22	4,217	4,229
		<hr/>	<hr/>
Total liabilities		<u>414,704</u>	<u>407,709</u>
Equity			
Share capital		8,995	8,995
Reserves		32,078	28,957
		<hr/>	<hr/>
Total equity		<u>41,073</u>	<u>37,952</u>
		<hr/>	<hr/>
Total liabilities and equity		<u>455,777</u>	<u>445,661</u>

The notes of page 8 to 34 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\$ millions	Share capital	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2018	8,995	2,430	27,151	38,576
Total comprehensive income	–	(49)	2,929	2,880
Dividends paid	–	–	(1,555)	(1,555)
Balance as at 30 June 2018	8,995	2,381	28,525	39,901
Acquisition of a commonly controlled business	–	–	(222)	(222)
Total comprehensive income	–	74	2,199	2,273
Dividends paid	–	–	(4,000)	(4,000)
Balance as at 31 December 2018	<u>8,995</u>	<u>2,455</u>	<u>26,502</u>	<u>37,952</u>
Balance as at 1 January 2019	8,995	2,455	26,502	37,952
Impact of adopting HKFRS 16 on 1 January 2019	–	–	10	10
Total comprehensive income	–	229	2,937	3,166
Dividends paid	–	–	(55)	(55)
Balance as at 30 June 2019	<u>8,995</u>	<u>2,684</u>	<u>29,394</u>	<u>41,073</u>

As at 30 June 2019, HK\$464 million (31 December 2018: HK\$534 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.

2017 final dividend of HK\$1,500 million for ordinary shares was proposed after the end of the reporting period and paid during 2018.

The notes of page 8 to 34 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 2019	30 June 2018*
Cash flows from operating activities			
Profit before income tax		3,558	3,421
Adjustments for non-cash items:			
Net gain on disposal of asset held for sale and fixed assets		–	(484)
Allowances for credit and other losses		195	134
Write-off of properties and other fixed assets		2	–
Depreciation and amortisation		307	133
Advances and other assets written off net of recoveries		(97)	(184)
Interest expense for subordinated liability		91	75
Interest element of lease payments		16	–
Profit before changes in operating assets and liabilities		4,072	3,095
Increase/(decrease) in:			
Due to banks		9	4,428
Deposits and balances from customers		(1,767)	18,073
Other liabilities and derivatives		7,501	13,947
Certificates of deposit issued		(1,313)	194
(Increase)/decrease in:			
Due from banks		(7,630)	(18,919)
Government securities and treasury bills		9,317	(1,813)
Loans and advances to customers		7,385	(7,987)
Bank and corporate securities		(326)	1,045
Other assets and derivatives		825	(927)
Net cash generated from operating activities before income tax		18,073	11,136
Hong Kong profits tax paid		(193)	(84)
Net cash generated from operating activities		17,880	11,052
Cash flows from investing activities			
Purchase of fixed assets		(141)	(99)
Proceeds from disposal of asset held for sale and fixed assets		–	594

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 2019	30 June 2018*
Net cash (used in)/generated from investing activities		<u>(141)</u>	<u>495</u>
Cash flows from financing activities			
Principal element of lease payments	27(a)	(164)	–
Dividends paid		(55)	(1,555)
Interest paid for subordinated liability		<u>(92)</u>	<u>(73)</u>
Net cash used in financing activities		<u>(311)</u>	<u>(1,628)</u>
Exchange differences and other adjustments		<u>(12)</u>	<u>17</u>
Net change in cash and cash equivalents		17,416	9,936
Cash and cash equivalents as at 1 January		<u>73,522</u>	<u>85,984</u>
Cash and cash equivalents as at 30 June	27(b)	<u><u>90,938</u></u>	<u><u>95,920</u></u>

* In accordance with the principles of merger accounting, 2018 figures have been restated due to the acquisition of DBS Vickers (Hong Kong) Limited's retail brokerage business. Please refer to note 2.1(a) for more details.

The notes of page 8 to 34 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 computes key regulatory ratios 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 Regulatory Disclosure Statements. The disclosures of regulatory capital, liquidity and other disclosures are available in the section of Regulatory Disclosures on our website www.dbs.com/hongkong/investor/financial-results.page.

2 Basis of preparation

2.1 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 Institute of Certified Public Accountants and are the same as those applied in preparing the financial statements for the year ended 31 December 2018 as disclosed in the Annual Report and Financial Statements for 2018, with exception of the following changes.

(a) Application of merger accounting

On 20 July 2018, the Bank signed a Business Transfer Agreement with DBS Vickers (Hong Kong) Limited (“DBSVHK”) to purchase certain rights in connection with the securities broking business for retail customers (the “Acquired Business”) and the transaction (“Business Transfer”) was completed on 13 October 2018 (the “Effective date”).

As the Bank and DBSVHK were under common control of DBS Group Holdings Ltd (“DBSH”), the ultimate holding company of the Bank, before and after the Business Transfer, the Group applied Accounting Guideline No.5 – “Merger Accounting for Common Control Combinations” issued by HKICPA (“AG5”) in accounting for the acquisition of the Acquired Business in the Group’s consolidated financial statements. Accordingly, the Group’s consolidated financial statements have been presented as if the acquisition by the Bank had occurred from the date when the Acquired Business first came under the common control.

For details of the Business Transfer and the impact to the Group’s 2018 financial results and positions, please refer to note 2(a) of the consolidated financial statements of the Group’s 2018 Annual Report.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

2 Basis of preparation (continued)

2.1 Accounting policies (continued)

(a) Application of merger accounting (continued)

The effects of the combination of Acquired Business on the results of the Group for the period ended 30 June 2018 are summarised as below:

Consolidated Income Statement

HK\$ millions	The Group	Acquired Business	Consolidated
For the period ended 30 June 2018			
Total income	6,014	11	6,025
Total expenses	<u>(3,079)</u>	<u>(17)</u>	<u>(3,096)</u>
Profit attributable to shareholders	<u>2,935</u>	<u>(6)</u>	<u>2,929</u>

(b) Adoption of HKFRS 16 Leases

During the period, the Group has adopted HKFRS 16 Leases, which replaced the existing leases accounting guidance under HKAS 17 and requires an on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. Optional recognition exemptions are available for short-term leases and leases of low-value assets. The existing straight-line operating lease expense in profit or loss is also replaced by a depreciation charge for right-of-use assets and interest expense for lease liabilities.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the respective lessee's incremental borrowing rate. Lease liabilities are subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in expected future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise an extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets are initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

2 Basis of preparation (continued)

2.1 Accounting policies (continued)

(b) Adoption of HKFRS 16 Leases (continued)

The Group applied HKFRS 16 on 1 January 2019, using the modified retrospective approach. The cumulative effect of adopting HKFRS 16 is recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the adjustments to the Group's financial statements as at 1 January 2019 are as follows:

- (i) lease liabilities of HK\$2,846 million was recognised as other liabilities in relation to leases which had previously been classified as operating leases under HKAS 17 Leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates of 1.19% as of 1 January 2019. The reconciliation between the amount of lease liabilities recognised at 1 January 2019 and operating lease commitments disclosed in the 2018 annual financial statements under HKAS 17 is as follows:

In HK\$ millions

Operating lease commitments disclosed as at 31 December 2018	1,787
Discounted using the incremental borrowing rate as at 1 January 2019	1,692
Less: Short-term leases exempted	(32)
Add: Inclusion of renewal options under HKFRS 16	1,186
Lease liabilities recognised as at 1 January 2019	<u>2,846</u>

- (ii) associated right-of-use assets of HK\$2,828 million was recognised and included as part of the properties and other fixed assets. Right-of-use assets on leased properties were measured on the retrospective basis as if HKFRS 16 had been applied since their lease commencement dates using the relevant incremental borrowing rates as at 1 January 2019; other right-of-use assets were measured at the amounts equal to the lease liabilities, adjusted by the amounts of any prepaid or accrued lease payments recognised in the balance sheet as at 31 December 2018.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

2 Basis of preparation (continued)

2.1 Accounting policies (continued)

(b) Adoption of HKFRS 16 Leases (continued)

There were no onerous lease contracts that would require an adjustment to the right-of-use assets balances recognised as at 1 January 2019.

The recognised right-of-use assets relate to the following types of assets:

In HK\$ millions	At 1 January 2019
Properties	2,734
Other fixed assets	94
Total right-of-use assets	<u>2,828</u>

(iii) other assets – increased by HK\$3 million

(iv) other liabilities – decreased by HK\$25 million

(v) retained earnings – increased by HK\$10 million

Practical expedients applied

The Group has elected to apply the practical expedients available to exclude short-term leases and leases of low-value assets from the requirements of HKFRS 16. The Group has also used the following practical expedients permitted by the standard on adoption of HKFRS 16:

- for contracts entered into before 1 January 2019, the Group had relied on its assessments under HKAS 17 and Hong Kong (IFRIC) Interpretation 4 “Determining whether an Arrangement contains a Lease” to identify and determine its lease contracts. The Group has not reassessed whether a contract is, or contains a lease at the date of transition;
- relied on assessments performed as at 31 December 2018 to ascertain whether leases are onerous;
- classified leases with remaining lease term of less than 12 months from 1 January 2019 as short-term leases;
- excluded initial direct costs from the measurement of right-of-use assets as at 1 January 2019; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

2 Basis of preparation (continued)

2.1 Accounting policies (continued)

(c) Other new standards and interpretations

Except for HKFRS 16 Leases, the adoption of HKFRS and interpretations effective from 1 January 2019 did not have any significant impact on the Group's financial statements.

2.2 Accounting estimates

Change in accounting estimates

The Group reviewed the estimated residual values of its owned properties. As a result of the review, the Group changed its estimates and applied these prospectively with effect from 1 January 2019 in accordance with HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The change has resulted in a decrease of depreciation charge of HK\$20 million for the period ended 30 June 2019.

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 these 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 2018.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

2 Basis of preparation (continued)

2.3 Condensed consolidated financial statements and statutory financial statements

The financial information relating to the year ended 31 December 2018 that is included in the Interim Report 2019 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 2018 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.

2.4 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\$6,388 million (first half of 2018: HK\$4,827 million).

4 Interest expense

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK\$1,921 million (first half of 2018: HK\$1,211 million).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

5 Net fee and commission income

In HK\$ millions	For the six months ended	
	30 June 2019	30 June 2018
Fee and commission income	1,906	1,868
Less: Fee and commission expense	(327)	(294)
Net fee and commission income	<u>1,579</u>	<u>1,574</u>
Comprising:		
– Wealth management	779	770
– Trade and transaction services (Note)	437	428
– Cards	178	166
– Loan-related	99	98
– Stockbroking	9	37
– Others	77	75
	<u>1,579</u>	<u>1,574</u>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	617	621
– Trust or other fiduciary activities	23	15
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	<u>(259)</u>	<u>(225)</u>

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

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

6 Net trading income

In HK\$ millions	For the six months ended	
	30 June 2019	30 June 2018
Net trading income		
– Foreign exchange	258	288
– Interest rates, equities and others	38	22
	<u>296</u>	<u>310</u>
Net loss from financial instruments designated at fair value through profit or loss	(39)	(17)
	<u>257</u>	<u>293</u>

7 Net income from investment securities

In HK\$ millions	For the six months ended	
	30 June 2019	30 June 2018
Debt securities at fair value through other comprehensive income	33	(4)
Equity securities at fair value through other comprehensive income	6	8
	<u>39</u>	<u>4</u>
Of which dividend income from:		
– Listed investments	–	–
– Unlisted investments	6	8
	<u>6</u>	<u>8</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

8 Other income

In HK\$ millions	For the six months ended	
	30 June 2019	30 June 2018
Rental income	14	19
Net gain on disposal of asset held for sale and fixed assets	–	484
Others	25	23
	<u>39</u>	<u>526</u>

9 Total expenses

In HK\$ millions	For the six months ended	
	30 June 2019	30 June 2018
Employee benefits		
– Salaries and other short-term employee benefits	1,497	1,343
– Pensions	86	79
– Share-based compensation	27	28
Premises and equipment expenses excluding depreciation		
– Rental of premises	–	167
– Expenses relating to short-term leases	18	–
– Others	123	89
Depreciation		
– Owned properties and other fixed assets	140	133
– Leased properties and other fixed assets	167	–
Auditor's remuneration	5	5
Computerisation expenses	175	216
Other operating expenses	406	410
	<u>2,644</u>	<u>2,470</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\$ millions	For the six months ended	
	30 June 2019	30 June 2018
Loans and advances to customers	199	155
Other assets	–	(17)
Off-balance sheet credit exposures	(4)	(4)
	<u>195</u>	<u>134</u>
Loans and advances to customers		
– New allowances	374	318
– Releases	(140)	(134)
– Recoveries	(35)	(29)
Other assets		
– New allowances	2	1
– Releases	(2)	(18)
Off-balance sheet credit exposures		
– Releases	(4)	(4)
	<u>195</u>	<u>134</u>

11 Income tax expense

In HK\$ millions	For the six months ended	
	30 June 2019	30 June 2018
Hong Kong profits tax	614	504
Overseas tax	2	3
Current income tax	616	507
Deferred income tax	5	(15)
	<u>621</u>	<u>492</u>

Hong Kong profits tax has been provided at 16.5% (first half of 2018:16.5%) 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.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

12 Dividends

(a) Ordinary shares

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Per share HK\$	HK\$ millions	Per share HK\$	HK\$ millions
Interim dividend proposed	<u>0.357</u>	<u>2,500</u>	<u>0.286</u>	<u>2,000</u>

The interim dividend proposed after the end of reporting period is not reflected as a dividend payable in these financial statements and is reflected as an appropriation of retained earnings.

(b) Preference shares

Preferential dividend of HK\$55 million (first half of 2018: HK\$55 million) was paid to holder of Class A preference shares during the period.

13 Cash and balances with central banks

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Cash in hand	588	636
Balances with central banks	<u>1,874</u>	<u>2,392</u>
	<u>2,462</u>	<u>3,028</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

14 Government securities and treasury bills

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Mandatorily at fair value through profit or loss	21,836	11,069
Fair value through other comprehensive income	21,113	21,348
Amortised cost	<u>6,752</u>	<u>5,872</u>
	49,701	38,289
Allowance for credit and other losses	<u>(1)</u>	<u>–</u>
	<u><u>49,700</u></u>	<u><u>38,289</u></u>

As at 30 June 2019, there were no impaired, overdue or rescheduled fair value through other comprehensive income and amortised cost financial assets (31 December 2018: Nil).

As at 30 June 2019, the fair value of the above debt securities classified as amortised cost is HK\$6,855 million (31 December 2018: HK\$5,927 million).

15 Due from banks

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Balances with banks	<u>4,208</u>	<u>4,352</u>
Placements with and advances to banks		
Remaining maturity		
– Within one month	65,020	64,307
– One year or less but over one month	35,250	40,502
– Over one year	<u>122,534</u>	<u>112,898</u>
	<u>222,804</u>	<u>217,707</u>
Gross amount due from banks	227,012	222,059
Allowance for credit and other losses	<u>(1)</u>	<u>(2)</u>
Net amount due from banks	<u><u>227,011</u></u>	<u><u>222,057</u></u>

As at 30 June 2019, there were no impaired, overdue or rescheduled placements with and advances to banks (31 December 2018: Nil).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

16 Bank and corporate securities

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Mandatorily at fair value through profit or loss	1,097	1,092
Fair value through other comprehensive income	2,133	2,476
Amortised cost	<u>6,539</u>	<u>5,851</u>
	9,769	9,419
Allowance for credit and other losses	<u>(1)</u>	<u>(1)</u>
	<u><u>9,768</u></u>	<u><u>9,418</u></u>

As at 30 June 2019, there were no impaired, overdue or rescheduled fair value through other comprehensive income and amortised cost financial assets (31 December 2018: Nil).

As at 30 June 2019, the fair value of the above debt securities classified as amortised cost is HK\$6,590 million (31 December 2018: HK\$5,797 million).

17 Loans and advances to customers

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Gross loans and advances to customers	157,084	164,469
Less: Allowance for credit and other losses		
– Specific allowances	(1,263)	(1,107)
– General allowances	<u>(1,137)</u>	<u>(1,191)</u>
	<u><u>154,684</u></u>	<u><u>162,171</u></u>
Comprising:		
– Trade bills	8,323	10,482
– Loans	<u>146,361</u>	<u>151,689</u>
	<u><u>154,684</u></u>	<u><u>162,171</u></u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

17 Loans and advances to customers (continued)

Impaired advances

	As at 30 June 2019		As at 31 December 2018	
	HK\$ millions	% of gross loans and advances to customers	HK\$ millions	% of gross loans and advances to customers
Gross impaired advances	2,353	1.50	2,505	1.52
Specific allowances	<u>(1,263)</u>		<u>(1,107)</u>	
	<u>1,090</u>		<u>1,398</u>	
Impaired advances covered by collateral	<u>898</u>		<u>1,069</u>	

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

18 Other assets

The balance as at 30 June 2019 included allowance for credit and other losses of HK\$129 million (31 December 2018: HK\$129 million).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

19 Properties and other fixed assets

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Owned properties and other fixed assets (a)	2,165	2,166
Leased properties and other fixed assets (b)	2,328	–
	<u>4,493</u>	<u>2,166</u>

(a) Owned properties and other fixed assets

In HK\$ millions	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
Cost						
As at 1 January 2019	23	2,346	2,134	4,503	33	4,536
Additions	–	–	141	141	–	141
Disposals	–	–	(43)	(43)	–	(43)
As at 30 June 2019	<u>23</u>	<u>2,346</u>	<u>2,232</u>	<u>4,601</u>	<u>33</u>	<u>4,634</u>
Accumulated depreciation and impairment						
As at 1 January 2019	17	961	1,372	2,350	20	2,370
Charge for the period	–	7	132	139	1	140
Disposals	–	–	(41)	(41)	–	(41)
As at 30 June 2019	<u>17</u>	<u>968</u>	<u>1,463</u>	<u>2,448</u>	<u>21</u>	<u>2,469</u>
Net book value						
As at 30 June 2019	<u>6</u>	<u>1,378</u>	<u>769</u>	<u>2,153</u>	<u>12</u>	<u>2,165</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

19 Properties and other fixed assets (continued)

(a) Owned properties and other fixed assets (continued)

In HK\$ millions	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
Cost						
As at 1 January 2018	23	2,361	1,707	4,091	2	4,093
Additions	–	17	442	459	–	459
Disposals	–	(1)	(15)	(16)	–	(16)
Transfers	–	(31)	–	(31)	31	–
As at 31 December 2018	23	2,346	2,134	4,503	33	4,536
Accumulated depreciation and impairment						
As at 1 January 2018	17	928	1,168	2,113	1	2,114
Charge for the year	–	53	219	272	–	272
Disposals	–	(1)	(15)	(16)	–	(16)
Transfers	–	(19)	–	(19)	19	–
As at 31 December 2018	17	961	1,372	2,350	20	2,370
Net book value						
As at 31 December 2018	6	1,385	762	2,153	13	2,166

(b) Leased properties and other fixed assets

In HK\$ millions	Properties	Other fixed assets	Total
Impact of adoption of HKFRS 16 on 1 January 2019	2,734	94	2,828
Additions of right-of-use assets during the period	32	59	91
Decrease due to changes of lease terms	(424)	–	(424)
Depreciation charge for the period	(152)	(15)	(167)
Balance as at 30 June 2019	2,190	138	2,328

The Group's leases comprise primarily office premises, branches and data centres.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

20 Deposits and balances from customers

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Deposits from customers at amortised cost	357,357	359,473
Structured investment deposits classified as financial liabilities designated at fair value through profit or loss	4,534	4,185
	<u>361,891</u>	<u>363,658</u>
Analysed by:		
– Demand deposits and current accounts	65,941	67,130
– Savings deposits	136,237	140,032
– Time, call and notice deposits	159,713	156,496
	<u>361,891</u>	<u>363,658</u>

21 Certificates of deposit issued

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Certificates of deposit issued, measured at amortised cost	4,245	5,558

22 Subordinated liability

The subordinated loan of US\$540 million was issued to its parent holding company, DBS Group Holdings Ltd on 13 December 2017. Interest is payable quarterly at USD 3-month LIBOR plus 1.62% per annum. The subordinated loan will mature on 13 December 2027, and is repayable on 13 December 2022 or any date thereafter. The terms require the subordinated loan to be written off if and when the Hong Kong Monetary Authority (“HKMA”) notifies the Bank that a write-off, or a public sector injection of capital (or equivalent support), is necessary, without which the Bank would become non-viable. In addition, the lender of the subordinated loan is subject to the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority. The subordinated loan is qualified 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)

23 Derivatives

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

In HK\$ millions	Contract/ notional amount	Credit risk- weighted amount	Positive fair values	Negative fair values
As at 30 June 2019				
Derivatives held for trading				
Foreign exchange derivatives				
– Forwards	46,569	176	96	82
– Swaps	101,353	249	305	157
– Options purchased	13,091	66	56	12
– Options written	13,106	14	12	79
	<u>174,119</u>	<u>505</u>	<u>469</u>	<u>330</u>
Interest rate derivatives				
– Swaps	19,462	77	241	301
– Options purchased	710	3	–	–
– Options written	700	–	–	–
	<u>20,872</u>	<u>80</u>	<u>241</u>	<u>301</u>
Equity derivatives	<u>1,215</u>	<u>50</u>	<u>15</u>	<u>15</u>
Credit derivatives	<u>6,451</u>	<u>175</u>	<u>3</u>	<u>3</u>
Total derivatives held for trading	<u>202,657</u>	<u>810</u>	<u>728</u>	<u>649</u>
Derivatives designated and qualified as fair value hedges				
Interest rate derivatives				
– Swaps	<u>1,351</u>	<u>2</u>	<u>20</u>	<u>–</u>
Derivatives designated and qualified as cash flow hedges				
Foreign exchange derivatives				
– Swaps	<u>6,400</u>	<u>224</u>	<u>1</u>	<u>84</u>
Total	<u>210,408</u>	<u>1,036</u>	<u>749</u>	<u>733</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

23 Derivatives (continued)

In HK\$ millions	Contract/ notional amount	Credit risk- weighted amount	Positive fair values	Negative fair values
As at 31 December 2018				
Derivatives held for trading				
Foreign exchange derivatives				
– Forwards	30,378	126	54	90
– Swaps	106,504	206	162	394
– Options purchased	4,258	23	38	4
– Options written	4,289	5	4	50
	<u>145,429</u>	<u>360</u>	<u>258</u>	<u>538</u>
Interest rate derivatives				
– Swaps	16,531	62	139	166
– Options purchased	1,274	4	–	–
– Options written	1,264	–	–	–
	<u>19,069</u>	<u>66</u>	<u>139</u>	<u>166</u>
Equity derivatives	<u>1,282</u>	<u>50</u>	<u>28</u>	<u>28</u>
Credit derivatives	<u>6,503</u>	<u>185</u>	<u>9</u>	<u>9</u>
Total derivatives held for trading	<u>172,283</u>	<u>661</u>	<u>434</u>	<u>741</u>
Derivatives designated and qualified as fair value hedges				
Interest rate derivatives				
– Swaps	<u>1,665</u>	<u>6</u>	<u>37</u>	<u>–</u>
Derivatives designated and qualified as cash flow hedges				
Interest rate derivatives				
– Swaps	<u>5,691</u>	<u>201</u>	<u>–</u>	<u>99</u>
Total	<u>179,639</u>	<u>868</u>	<u>471</u>	<u>840</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

23 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 2019 and 31 December 2018 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.

24 Contingent liabilities and commitments

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

In HK\$ millions	As at 30 June 2019	As at 31 December 2018
Direct credit substitutes	529	525
Transaction-related contingencies	2,606	2,252
Trade-related contingencies	8,531	8,197
Forward forward deposits placed	–	2,276
Other commitments with an original maturity of not more than one year	10,704	9,377
Other commitments with an original maturity of more than one year	3,625	2,109
Other commitments which are unconditionally cancellable	158,464	150,084
	<u>184,459</u>	<u>174,820</u>
Credit risk-weighted amount	<u>17,855</u>	<u>19,531</u>

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 HKFRS 9 Financial Instruments. 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\$1,966 million (31 December 2018: HK\$1,993 million).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

25 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.

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.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

25 Fair Value of financial instrument (continued)

(a) Valuation process (continued)

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)

25 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 2019, there was no Day 1 P&L reserve (31 December 2018: 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)

25 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
As at 30 June 2019				
Assets				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	21,836	–	–	21,836
– Bank and corporate securities	–	1,097	–	1,097
Fair value through other comprehensive income				
– Government securities and treasury bills	20,773	340	–	21,113
– Bank and corporate securities	2,025	–	108	2,133
Derivatives	–	749	–	749
Liabilities				
Financial liabilities at fair value through profit or loss				
– Payable in respect of short sale of securities	20,697	–	–	20,697
– Deposits and balances from customers	–	4,534	–	4,534
Derivatives	–	733	–	733

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

25 Fair value of financial instrument (continued)

(b) Fair value hierarchy (continued)

In HK\$ millions	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Assets				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	11,069	–	–	11,069
– Bank and corporate securities	–	1,092	–	1,092
Fair value through other comprehensive income				
– Government securities and treasury bills	21,038	310	–	21,348
– Bank and corporate securities	2,239	128	109	2,476
Derivatives	–	471	–	471
Liabilities				
Financial liabilities at fair value through profit or loss				
– Payable in respect of short sale of securities	2,793	–	–	2,793
– Deposits and balances from customers	–	4,185	–	4,185
Derivatives	–	840	–	840

During the first half of 2019, there were no transfers between Level 1, Level 2 and Level 3 financial assets (2018: Nil). 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.

(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:

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

25 Fair value of financial instrument (continued)

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

(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 – amortised cost

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 16.

(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.

26 Material related-party transactions

There were no changes in the related party transaction described in 2018 Annual report that have had a material impact on the financial position or performance of the Group in the six months ended 30 June 2019.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

27 Notes to the condensed consolidated cash flow statement

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

In HK\$ millions	Lease liabilities	Subordinated liability
Balance as at 1 January 2019	–	4,229
Impact of adoption of HKFRS 16 on 1 January 2019	2,846	–
Cash outflow from financing activities	(164)	–
Interest element of lease liabilities	16	–
Net changes due to addition and changes of lease terms	(333)	–
Exchange differences and other adjustments	–	(12)
Balance as at 30 June 2019	<u>2,365</u>	<u>4,217</u>
Balance as at 1 January 2018	–	4,220
Exchange differences and other adjustments	–	18
Balance as at 30 June 2018	<u>–</u>	<u>4,238</u>

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

In HK\$ millions	As at 30 June 2019	As at 30 June 2018
Cash and balances with central banks	2,462	2,816
Due from banks		
– Balances with banks	4,208	3,832
– Placements with and advances to banks repayable with original maturity within three months	56,775	70,801
Bills and notes repayable with original maturity within three months	27,493	18,471
	<u>90,938</u>	<u>95,920</u>