

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 2020**

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 income for the six months ended 30 June 2020 amounted to HK\$5,940 million, declined by 7.1% year-on-year, mainly attributable to a decrease in net interest income. Net interest income declined 12.6% year-on-year to HK\$3,916 million, adversely impacted by lower interest rate levels in the market. The decline in net interest income was partially offset by the increase in non-interest income which was HK\$2,024 million, a 5.7% growth attributable to higher trading income from foreign exchange business.

Expenses for the period were HK\$2,450 million, 7.3% lower than the same period of last year mainly attributable to reduction from non-staff expenses. Cost to income ratio remained stable at 41.2%.

Operating profits for the period were HK\$3,490 million, a decline of 7% from a year ago.

Allowances for credit and other losses were HK\$731 million for the period mainly attributable to general allowances of HK\$549 million for loans and advances to customers in view of the impact of coronavirus outbreak and higher uncertainty of economic outlook. Specific allowances were HK\$182 million for the period, a decline of 28% year-on-year.

As a result, profit attributable to shareholders for the six months ended 30 June 2020 amounted to HK\$2,334 million, declined by 20.5% year-on-year, mainly attributable to the decrease in net interest income, and increase in general allowances.

Loans and advances to customers increased by 5% to HK\$163 billion year-on-year mainly from non-trade corporates while customer deposits declined 2.8% to HK\$352 billion.

The Bank's capital and liquidity positions remained resilient. Total capital adequacy ratio and common equity tier 1 ratio as at 30 June 2020 were solid at 20.3% and 17.7% respectively. Liquidity was adequate, with the average liquidity coverage ratio at 149% for the quarter ended 30 June 2020, 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 2020	30 June 2019
Interest income	3	5,450	6,527
Interest expense	4	(1,534)	(2,044)
Net interest income		3,916	4,483
Net fee and commission income	5	1,430	1,579
Net trading income	6	432	257
Net income from investment securities	7	128	39
Other income	8	34	39
Total income		5,940	6,397
Total expenses	9	(2,450)	(2,644)
Profit before allowances for credit and other losses		3,490	3,753
Allowances for credit and other losses	10	(731)	(195)
Profit before income tax		2,759	3,558
Income tax expense	11	(425)	(621)
Profit attributable to shareholders		2,334	2,937

The notes on page 8 to 33 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 2020	30 June 2019
Profit attributable to shareholders	2,334	2,937
Other comprehensive income:		
Items that may be reclassified subsequently to income statement:		
Debt instruments classified at fair value through other comprehensive income ("FVOCI")		
– Net valuation taken to equity (Note)	330	128
– Transferred to income statement	(99)	(33)
– Deferred income tax debited to equity	(35)	(16)
Cash flow hedge		
– Net valuation taken to equity	377	285
– Transferred to income statement	(91)	(104)
– Deferred income tax debited to equity	(47)	(30)
Items that will not be reclassified to income statement:		
Equity instruments classified at FVOCI		
– Net valuation taken to equity	(3)	(1)
Other comprehensive income attributable to shareholders, net of tax	432	229
Total comprehensive income attributable to shareholders	2,766	3,166

Note: Included valuation gains of HK\$129 million resulting from reclassification of bank securities amounting to HK\$5,186 million from amortised cost to FVOCI in March 2020 due to change of business model for the purpose of enhancing liquidity management.

The notes on page 8 to 33 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\$ millions	Note	As at 30 June 2020	As at 31 December 2019
Assets			
Cash and balances with central banks	13	4,266	2,789
Government securities and treasury bills	14	52,397	30,949
Due from banks	15	203,961	236,511
Derivatives	23	1,743	633
Bank and corporate securities	16	10,759	9,544
Loans and advances to customers	17	162,755	155,128
Other assets	18	8,978	6,552
Properties and other fixed assets	19	4,376	4,423
Goodwill		168	168
		<hr/>	<hr/>
Total assets		449,403	446,697
		<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Due to banks		7,153	5,810
Deposits and balances from customers	20	352,086	374,100
Derivatives	23	1,836	566
Certificates of deposit issued	21	1,228	6,358
Other liabilities		41,177	16,633
Subordinated liability	22	4,185	4,203
		<hr/>	<hr/>
Total liabilities		407,665	407,670
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital		8,995	8,995
Reserves		32,743	30,032
		<hr/>	<hr/>
Total equity		41,738	39,027
		<hr/> <hr/>	<hr/> <hr/>
Total liabilities and equity		449,403	446,697
		<hr/> <hr/>	<hr/> <hr/>

The notes on page 8 to 33 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 2019	8,995	2,455	26,502	37,952
Impact of adopting HKFRS 16 on 1 January 2019	–	–	(25)	(25)
Total comprehensive income	–	229	2,937	3,166
Dividend paid	–	–	(55)	(55)
Balance as at 30 June 2019	8,995	2,684	29,359	41,038
Total comprehensive income	–	65	2,424	2,489
Dividends paid	–	–	(4,500)	(4,500)
Balance as at 31 December 2019	<u>8,995</u>	<u>2,749</u>	<u>27,283</u>	<u>39,027</u>
Balance as at 1 January 2020	8,995	2,749	27,283	39,027
Total comprehensive income	–	432	2,334	2,766
Dividend paid	–	–	(55)	(55)
Balance as at 30 June 2020	<u>8,995</u>	<u>3,181</u>	<u>29,562</u>	<u>41,738</u>

As at 30 June 2020, no regulatory reserve was earmarked from the retained earnings (31 December 2019: HK\$229 million). The regulatory reserve was maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve were made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The notes on page 8 to 33 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 2020	30 June 2019
Cash flows from operating activities			
Profit before income tax		2,759	3,558
Adjustments for non-cash items:			
Allowances for credit and other losses		731	195
Write-off of properties and other fixed assets		–	2
Depreciation and amortisation		297	307
Advances and other assets written off net of recoveries		(218)	(97)
Interest expense for subordinated liability		59	91
Interest expense on lease liabilities	27(a)	13	16
Profit before changes in operating assets and liabilities		3,641	4,072
Increase/(decrease) in:			
Due to banks		1,343	9
Deposits and balances from customers		(22,014)	(1,767)
Other liabilities and derivatives		26,670	7,501
Certificates of deposit issued		(5,130)	(1,313)
(Increase)/decrease in:			
Due from banks		29,370	(7,630)
Government securities and treasury bills		1,083	9,317
Loans and advances to customers		(8,067)	7,385
Bank and corporate securities		(1,054)	(326)
Other assets and derivatives		(3,533)	825
Net cash generated from operating activities before income tax		22,309	18,073
Hong Kong profits tax paid		(1,109)	(193)
Net cash generated from operating activities		21,200	17,880
Cash flows from investing activities			
Purchase of fixed assets		(142)	(141)
Proceeds from disposal of fixed assets		3	–
Net cash used in investing activities		(139)	(141)

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 2020	30 June 2019
Cash flows from financing activities			
Principal element of lease payments	27(a)	(151)	(148)
Interest element of lease payments	27(a)	(13)	(16)
Dividends paid		(55)	(55)
Interest paid for subordinated liability		(63)	(92)
Net cash used in financing activities		(282)	(311)
Exchange differences and other adjustments		(18)	(12)
Net change in cash and cash equivalents		20,761	17,416
Cash and cash equivalents as at 1 January		80,066	73,522
Cash and cash equivalents as at 30 June	27(b)	100,827	90,938

The notes on page 8 to 33 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 2019 as disclosed in the Annual Report and Financial Statements for 2019, with exception of the following changes.

The adoption of HKFRS and interpretations effective from 1 January 2020 did not have any significant impact on the Group’s financial statements.

2.2 Accounting estimates

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 2019.

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 2019 that is included in the Interim Report 2020 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 2019 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

In HK\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Cash and balances with central banks and due from banks	2,390	2,954
Customer non-trade loans	2,319	2,563
Trade assets	340	484
Securities and others	401	526
Total interest income	<u>5,450</u>	<u>6,527</u>
Comprising:		
Interest income from financial assets at fair value through profit or loss ("FVPL")	95	163
Interest income from financial assets at FVOCI	183	184
Interest income from financial assets at amortised cost	5,172	6,180
	<u>5,450</u>	<u>6,527</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

4 Interest expense

In HK\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Deposits and balances from customers	(1,337)	(1,694)
Interest expense on subordinated liability	(59)	(91)
Other interest expense	<u>(138)</u>	<u>(259)</u>
Total interest expense	<u><u>(1,534)</u></u>	<u><u>(2,044)</u></u>
Comprising:		
Interest expense from financial liabilities at FVPL	(63)	(123)
Interest expense from financial liabilities not at FVPL ^(a)	<u>(1,471)</u>	<u>(1,921)</u>
	<u><u>(1,534)</u></u>	<u><u>(2,044)</u></u>

^(a) Includes interest expense on lease liabilities of HK\$13 million (2019: HK\$16 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 2020	30 June 2019
Fee and commission income	1,722	1,906
Less: Fee and commission expense	(292)	(327)
Net fee and commission income	<u>1,430</u>	<u>1,579</u>
Comprising:		
– Wealth management	728	779
– Trade and transaction services	444	514
– Cards	157	178
– Loan-related	90	99
– Stockbroking	11	9
	<u>1,430</u>	<u>1,579</u>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at FVPL	516	617
– Trust or other fiduciary activities	23	23
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at FVPL	<u>208</u>	<u>259</u>

6 Net trading income

In HK\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Net trading income		
– Foreign exchange	395	258
– Interest rates, equities and others	60	38
	<u>455</u>	<u>296</u>
Net loss from financial instruments designated at fair value	<u>(23)</u>	<u>(39)</u>
	<u>432</u>	<u>257</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\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Debt securities at:		
– FVOCI	99	33
– Amortised cost	23	–
Equity securities at FVOCI	6	6
	<u>128</u>	<u>39</u>
Of which dividend income from:		
– Listed investments	–	–
– Unlisted investments	6	6
	<u>6</u>	<u>6</u>

8 Other income

In HK\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Rental income	12	14
Others	22	25
	<u>34</u>	<u>39</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

9 Total expenses

In HK\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Employee benefits		
– Salaries and other short-term employee benefits	1,549	1,497
– Pensions	94	86
– Share-based compensation	28	27
Premises and equipment expenses excluding depreciation		
– Expenses relating to short-term leases and low-value assets	9	18
– Others	84	123
Depreciation expenses		
– Owned properties and other fixed assets	146	140
– Leased properties and other fixed assets	151	167
Auditor's remuneration	5	5
Computerisation expenses	138	175
Other operating expenses	246	406
	<u>2,450</u>	<u>2,644</u>

10 Allowances for credit and other losses

In HK\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Specific allowances		
Loans and advances to customers	182	253
General allowances		
Loans and advances to customers	481	(54)
Off-balance sheet credit exposures	68	(4)
	<u>731</u>	<u>195</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

11 Income tax expense

In HK\$ millions	For the six months ended	
	30 June 2020	30 June 2019
Hong Kong profits tax	515	614
Overseas tax	1	2
Current income tax	516	616
Deferred income tax	(91)	5
	<u>425</u>	<u>621</u>

Hong Kong profits tax has been provided at 16.5% (first half of 2019:16.5%) 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 locations in which they operate.

12 Dividends

(a) Ordinary shares

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	Per share HK\$	HK\$ millions	Per share HK\$	HK\$ millions
Interim dividend proposed	–	–	0.357	2,500

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 (2019: HK\$55 million) was paid to holder of Class A preference shares during the period ended 30 June 2020.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

13 Cash and balances with central banks

In HK\$ millions	As at 30 June 2020	As at 31 December 2019
Cash in hand	718	959
Balances with central banks	<u>3,548</u>	<u>1,830</u>
	<u><u>4,266</u></u>	<u><u>2,789</u></u>

14 Government securities and treasury bills

In HK\$ millions	As at 30 June 2020	As at 31 December 2019
Mandatorily at FVPL	22,416	2,125
FVOCI	21,128	22,167
Amortised cost	<u>8,853</u>	<u>6,657</u>
	<u><u>52,397</u></u>	<u><u>30,949</u></u>

As at 30 June 2020, there were no impaired, overdue or rescheduled FVOCI and amortised cost financial assets (31 December 2019: Nil).

As at 30 June 2020, the fair value of the above debt securities classified as amortised cost was HK\$8,876 million (31 December 2019: HK\$6,695 million).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

15 Due from banks

In HK\$ millions	As at 30 June 2020	As at 31 December 2019
Balances with banks	<u>3,911</u>	<u>2,957</u>
Placements with and advances to banks		
Remaining maturity		
– Within one month	55,585	71,662
– One year or less but over one month	30,214	37,113
– Over one year	<u>114,252</u>	<u>124,779</u>
	<u>200,051</u>	<u>233,554</u>
Gross amount due from banks	203,962	236,511
Allowance for credit and other losses	<u>(1)</u>	<u>–</u>
Net amount due from banks	<u><u>203,961</u></u>	<u><u>236,511</u></u>

As at 30 June 2020, there were no impaired, overdue or rescheduled placements with and advances to banks (31 December 2019: Nil).

16 Bank and corporate securities

In HK\$ millions	As at 30 June 2020	As at 31 December 2019
Mandatorily at FVPL	1,056	1,080
FVOCI	9,703	2,341
Amortised cost	<u>–</u>	<u>6,124</u>
	<u>10,759</u>	<u>9,545</u>
Allowance for credit and other losses	<u>–</u>	<u>(1)</u>
	<u><u>10,759</u></u>	<u><u>9,544</u></u>

As at 30 June 2020, there were no impaired, overdue or rescheduled FVOCI and amortised cost financial assets (31 December 2019: Nil).

As at 31 December 2019, the fair value of the above debt securities classified as amortised cost was HK\$6,186 million.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

17 Loans and advances to customers

In HK\$ millions	As at 30 June 2020	As at 31 December 2019
Gross loans and advances to customers	165,904	157,831
Less: Allowance for credit and other losses		
– Specific allowances	(1,273)	(1,308)
– General allowances	(1,876)	(1,395)
	<u>162,755</u>	<u>155,128</u>
Comprising:		
– Trade bills	7,674	6,707
– Loans	155,081	148,421
	<u>162,755</u>	<u>155,128</u>

Impaired advances

	As at 30 June 2020		As at 31 December 2019	
	HK\$ millions	% of gross loans and advances to customers	HK\$ millions	% of gross loans and advances to customers
Gross impaired advances	2,662	1.60	2,387	1.51
Specific allowances	<u>(1,273)</u>		<u>(1,308)</u>	
	<u>1,389</u>		<u>1,079</u>	
Impaired advances covered by collateral	<u>1,204</u>		<u>903</u>	

The specific 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 Loans and advances to customers (continued)

The table below shows the movements in specific and general allowances during the period.

In HK\$ millions	Balance at 1 January	Charge to income statement	Recoveries	Write-off	Exchange and other movements	Balance at 30 June
2020						
Specific allowances						
Loans and advances to customers	1,308	182	28	(246)	1	1,273
Others	21	-	-	-	7	28
Total specific allowances	1,329	182	28	(246)	8	1,301
General allowances						
Loans and advances to customers	1,395	481	-	-	-	1,876
Others ^(a)	117	68	-	-	-	185
Total general allowances	1,512	549	-	-	-	2,061
Total allowances for credit and other losses	2,841	731	28	(246)	8	3,362

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

17 Loans and advances to customers (continued)

In HK\$ millions	Balance at 1 January	Charge to income statement	Recoveries	Write-off	Exchange and other movements	Balance at 31 December
2019						
Specific allowances						
Loans and advances to customers	1,107	409	82	(309)	19	1,308
Others	125	–	–	(104)	–	21
Total specific allowances	1,232	409	82	(413)	19	1,329
General allowances						
Loans and advances to customers	1,191	204	–	–	–	1,395
Others ^(a)	108	9	–	–	–	117
Total general allowances	1,299	213	–	–	–	1,512
Total allowances for credit and other losses	2,531	622	82	(413)	19	2,841

^(a) Include general allowances for other assets and off balance sheet exposures.

Loans and advances to customers by credit quality

In HK\$ millions	As at 30 June 2020			Total
	Stage 1	Stage 2	Stage 3	
Neither past due nor impaired				
– Pass	140,470	16,617	–	157,087
– Special Mention	238	2,223	–	2,461
Past due but not impaired ^(a)	3,420	274	–	3,694
Impaired	–	–	2,662	2,662
	144,128	19,114	2,662	165,904

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

17 Loans and advances to customers (continued)

In HK\$ millions	As at 31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Neither past due nor impaired				
– Pass	135,515	16,266	–	151,781
– Special Mention	86	1,170	–	1,256
Past due but not impaired ^(a)	2,059	348	–	2,407
Impaired	–	–	2,387	2,387
	<u>137,660</u>	<u>17,784</u>	<u>2,387</u>	<u>157,831</u>

^(a) The majority of past due but not impaired assets are classified as “Pass”.

18 Other assets

The balance as at 30 June 2020 included allowance for credit and other losses of HK\$32 million (31 December 2019: HK\$27 million).

19 Properties and other fixed assets

In HK\$ millions	As at	As at
	30 June 2020	31 December 2019
Owned properties and other fixed assets (a)	2,240	2,247
Leased properties and other fixed assets (b)	<u>2,136</u>	<u>2,176</u>
	<u>4,376</u>	<u>4,423</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

In HK\$ millions	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
Cost						
As at 1 January 2020	23	2,364	2,390	4,777	33	4,810
Additions	–	38	104	142	–	142
Disposals/written off	–	–	(15)	(15)	–	(15)
As at 30 June 2020	<u>23</u>	<u>2,402</u>	<u>2,479</u>	<u>4,904</u>	<u>33</u>	<u>4,937</u>
Accumulated depreciation and impairment						
As at 1 January 2020	17	978	1,547	2,542	21	2,563
Charge for the period	–	10	136	146	–	146
Disposals/written off	–	–	(12)	(12)	–	(12)
As at 30 June 2020	<u>17</u>	<u>988</u>	<u>1,671</u>	<u>2,676</u>	<u>21</u>	<u>2,697</u>
Net book value						
As at 30 June 2020	<u><u>6</u></u>	<u><u>1,414</u></u>	<u><u>808</u></u>	<u><u>2,228</u></u>	<u><u>12</u></u>	<u><u>2,240</u></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 2019	23	2,346	2,134	4,503	33	4,536
Additions	–	21	360	381	–	381
Disposals/written off ^(a)	–	(3)	(104)	(107)	–	(107)
As at 31 December 2019	23	2,364	2,390	4,777	33	4,810
Accumulated depreciation and impairment						
As at 1 January 2019	17	961	1,372	2,350	20	2,370
Charge for the year	–	18	273	291	1	292
Disposals/written off ^(a)	–	(1)	(98)	(99)	–	(99)
As at 31 December 2019	17	978	1,547	2,542	21	2,563
Net book value						
As at 31 December 2019	6	1,386	843	2,235	12	2,247

^(a) Included amount written off of net book value HK\$8 million.

(b) Leased properties and other fixed assets

In HK\$ millions	Properties	Other fixed assets	Total
As at 1 January 2020	2,053	123	2,176
Increase due to changes of lease terms	31	80	111
Depreciation charge for the period	(137)	(14)	(151)
Balance as at 30 June 2020	1,947	189	2,136

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

19 Properties and other fixed assets (continued)

(b) Leased properties and other fixed assets (continued)

In HK\$ millions	Properties	Other fixed assets	Total
As at 1 January 2019	2,692	94	2,786
Additions of right-of-use assets during the year	62	59	121
Decrease due to changes of lease terms	(415)	–	(415)
Depreciation charge for the year	(286)	(30)	(316)
Balance as at 31 December 2019	<u>2,053</u>	<u>123</u>	<u>2,176</u>

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

20 Deposits and balances from customers

In HK\$ millions	As at 30 June 2020	As at 31 December 2019
Deposits from customers at amortised cost	349,476	370,583
Structured investment deposits classified as financial liabilities designated at FVPL	2,610	3,517
	<u>352,086</u>	<u>374,100</u>
Analysed by:		
– Demand deposits and current accounts	70,359	68,982
– Savings deposits	162,032	143,736
– Time, call and notice deposits	119,695	161,382
	<u>352,086</u>	<u>374,100</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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21 Certificates of deposit issued

In HK\$ millions	As at 30 June 2020	As at 31 December 2019
Certificates of deposit issued, measured at amortised cost	<u>1,228</u>	<u>6,358</u>

22 Subordinated liability

On 13 December 2017, the Bank issued a subordinated loan (the “Loan”) of US\$540 million to DBS Group Holdings Ltd. Interest on the Loan is payable quarterly at USD 3-month LIBOR plus 1.62% per annum. The Loan will mature on 13 December 2027 and is repayable on 13 December 2022 or any date thereafter. The terms require the 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 Loan is subject to the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority. The 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	Positive fair values	Negative fair values
As at 30 June 2020			
Derivatives held for trading			
Interest rate derivatives			
– Interest rate swaps	26,020	694	835
– Interest rate futures	310	–	1
– Interest rate options	4,650	104	104
– Interest rate caps/floors	1,258	–	–
Sub-total	<u>32,238</u>	<u>798</u>	<u>940</u>
Foreign exchange derivatives			
– Foreign exchange contracts	78,527	401	231
– Currency swaps	6,915	94	94
– Currency options	29,900	84	84
Sub-total	<u>115,342</u>	<u>579</u>	<u>409</u>
Equity derivatives	<u>1,490</u>	<u>66</u>	<u>66</u>
Credit derivatives	<u>9,896</u>	<u>7</u>	<u>7</u>
Commodity derivatives	<u>–</u>	<u>–</u>	<u>–</u>
Total derivatives held for trading	<u>158,966</u>	<u>1,450</u>	<u>1,422</u>
Derivatives held for hedging			
Interest rate swaps held for fair value hedge	450	6	2
Currency swaps held for cash flow hedge	<u>8,162</u>	<u>287</u>	<u>412</u>
Total derivatives held for hedging	<u>8,612</u>	<u>293</u>	<u>414</u>
Total derivatives	<u>167,578</u>	<u>1,743</u>	<u>1,836</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

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23 Derivatives (continued)

In HK\$ millions	Contract/ notional amount	Positive fair values	Negative fair values
As at 31 December 2019			
Derivatives held for trading			
Interest rate derivatives			
– Interest rate swaps	18,540	198	250
– Interest rate futures	–	–	–
– Interest rate options	2,336	3	3
– Interest rate caps/floors	1,374	–	–
Sub-total	<u>22,250</u>	<u>201</u>	<u>253</u>
Foreign exchange derivatives			
- Foreign exchange contracts	91,833	296	191
- Currency swaps	7,388	33	33
- Currency options	30,784	53	52
Sub-total	<u>130,005</u>	<u>382</u>	<u>276</u>
Equity derivatives	<u>1,132</u>	<u>18</u>	<u>18</u>
Credit derivatives	<u>8,801</u>	<u>6</u>	<u>6</u>
Commodity derivatives	<u>3</u>	<u>–</u>	<u>–</u>
Total derivatives held for trading	<u><u>162,191</u></u>	<u><u>607</u></u>	<u><u>553</u></u>
Derivatives held for hedging			
Interest rate swaps held for fair value hedge	1,351	14	–
Currency swaps held for cash flow hedge	6,397	12	13
Total derivatives held for hedging	<u>7,748</u>	<u>26</u>	<u>13</u>
Total derivatives	<u><u>169,939</u></u>	<u><u>633</u></u>	<u><u>566</u></u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

23 Derivatives (continued)

The 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.

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 2020	As at 31 December 2019
Direct credit substitutes	475	273
Transaction-related contingencies	2,664	2,835
Trade-related contingencies	9,133	8,762
Forward deposits placed	3,828	–
Other commitments with an original maturity of not more than one year	2	27
Other commitments with an original maturity of more than one year	4,526	2,156
Other commitments which are unconditionally cancellable	<u>155,054</u>	<u>161,566</u>
	<u>175,682</u>	<u>175,619</u>
Credit risk-weighted amount	<u>16,922</u>	<u>15,735</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\$1,438 million (31 December 2019: HK\$1,461 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 2020, there was no Day 1 P&L reserve (31 December 2019: 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 with 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 within the fair value 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 that reliability of the fair value measurement is high. These would include corporate debt securities, repurchase, reverse repurchase agreements and most of the Group's OTC derivatives.

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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 market parameters whether used directly to value a financial asset or liability, or used as 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. Level 3 instruments also include unquoted equity securities which are measured based on the net asset value of the investments. In addition, Level 3 inputs include all stale quoted security prices and other approximations (e.g. bonds valued using credit default swap spreads).

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 2020				
Assets				
Financial assets at FVPL				
– Government securities and treasury bills	22,416	–	–	22,416
– Bank and corporate securities	–	1,056	–	1,056
FVOCI financial assets				
– Government securities and treasury bills	20,798	330	–	21,128
– Bank and corporate securities	9,481	30	192	9,703
Derivatives	–	1,743	–	1,743
Liabilities				
Financial liabilities at FVPL				
– Payable in respect of short sale of securities	20,118	–	–	20,118
– Deposits and balances from customers	–	2,610	–	2,610
Derivatives	1	1,835	–	1,836

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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 2019				
Assets				
Financial assets at FVPL				
– Government securities and treasury bills	2,125	–	–	2,125
– Bank and corporate securities	1	1,079	–	1,080
FVOCI financial assets				
– Government securities and treasury bills	21,760	407	–	22,167
– Bank and corporate securities	2,116	30	195	2,341
Derivatives	–	633	–	633
Liabilities				
Financial liabilities at FVPL				
– Payable in respect of short sale of securities	541	–	–	541
– Deposits and balances from customers	–	3,517	–	3,517
Derivatives	–	566	–	566

There were no significant transfers in and out of Level 3 during the period (2019: Nil). The bank and corporate securities classified as Level 3 comprised mainly unquoted equity securities which were valued based on net asset value of the investments.

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

For financial assets and liabilities not carried at fair value in the financial statements, the Group has ascertained that their fair values were not materially different from the carrying amounts at period-end.

For cash and balances with central banks, due from banks, loans and advances to customers, as well as due to banks, deposits and balances from customers and certificates of deposits issued, the basis of arriving at fair values is by discounting cash flows using the relevant market interest rates for the respective currencies.

For investment debt securities, 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 of variable interest-bearing as well as financial instruments accounted for at amortised cost is assumed to be approximated by their carrying amounts.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

26 Material related-party transactions

There were no changes in the related party transaction described in 2019 Annual Report that have had a material impact on the financial position or performance of the Group in the six months ended 30 June 2020.

27 Notes to the condensed consolidated cash flow statement

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

In HK\$ millions	Lease liabilities	
	2020	2019
Balance as at 1 January	2,259	–
Impact of adoption of HKFRS 16 on 1 January 2019	–	2,846
Cash outflow from financing activities	(164)	(164)
Interest element of lease liabilities	13	16
Net changes due to addition and changes of lease terms	111	(333)
Balance as at 30 June	2,219	2,365

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

In HK\$ millions	As at	As at
	30 June 2020	30 June 2019
Cash and balances with central banks	4,266	2,462
Due from banks		
– Balances with banks	3,911	4,208
– Placements with and advances to banks repayable with original maturity within three months	61,948	56,775
Bills and notes repayable with original maturity within three months	30,702	27,493
	100,827	90,938