

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 2023**

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 achieved a record performance for the six months ended 30 June 2023 as net profit grew 76% to HK\$3,791 million. Return on equity increased to 17.2%.

Total income amounted to HK\$7,546 million, 38% higher than the same period of last year. Higher interest rates boosted net interest income, reporting a significant growth of 66% to HK\$5,190 million. Net interest margin increased to 2.27% for first-half 2023. Non-interest income increased slightly to HK\$2,356 million. Increase in fee and commission income well covered the decline in other income due to financial market volatility.

Expenses for the period rose by 8% to HK\$2,869 million, mainly from higher staff costs. Cost to income ratio further improved to 38%. Operating profits for the period were HK\$4,677 million, a growth of 66% compared to same period of last year.

Asset quality remained benign. Allowances for credit and other losses were HK\$185 million for the period. Specific allowances were HK\$205 million, 23% lower comparing with the same period of last year. General allowances were a write back of HK\$20 million. Total allowance reserves amounted to HK\$3,565 million, resulting in an allowance coverage of 112%.

Due to high interest rate environment, loans and advances to customers declined 3% to HK\$269 billion in the first-half of the year. Customer deposits reduced 8% to HK\$364 billion.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED INCOME STATEMENT (unaudited)**

In HK\$ millions	Note	For the six months ended	
		30 June 2023	30 June 2022
Interest income	3	9,376	3,670
Interest expense	4	(4,186)	(535)
Net interest income		5,190	3,135
Net fee and commission income	5	1,738	1,593
Net trading income	6	541	757
Net income/(loss) from investment securities	7	43	(45)
Other income	8	34	36
Total income		7,546	5,476
Total expenses	9	(2,869)	(2,653)
Profit before allowances for credit and other losses		4,677	2,823
Allowances for credit and other losses	10	(185)	(249)
Profit before income tax		4,492	2,574
Income tax expense	11	(701)	(419)
Profit attributable to shareholders		3,791	2,155

The notes on 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 2023	30 June 2022
Profit attributable to shareholders	3,791	2,155
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	114	(1,040)
– Transferred to income statement	(8)	54
– Deferred income tax credited to equity	(24)	161
Cash flow hedge		
– Net valuation taken to equity	(335)	(2,419)
– Transferred to income statement	274	(224)
– Deferred income tax credited to equity	10	436
Items that will not be reclassified to income statement:		
Equity instruments classified at FVOCI		
– Net valuation taken to equity	(11)	(11)
Other comprehensive income attributable to shareholders, net of tax	20	(3,043)
Total comprehensive income attributable to shareholders	3,811	(888)

The notes on page 8 to 34 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 2023	As at 31 December 2022
Assets			
Cash and balances with central banks	13	2,583	4,873
Government securities and treasury bills	14	76,884	60,083
Due from banks	15	71,154	98,889
Derivatives	23	3,214	3,047
Bank and corporate securities	16	22,442	23,535
Loans and advances to customers	17	268,559	276,196
Other assets	18	5,790	5,222
Properties and other fixed assets	19	3,684	3,862
Goodwill		168	168
		<u>454,478</u>	<u>475,875</u>
Total assets		<u>454,478</u>	<u>475,875</u>
Liabilities			
Due to banks		9,788	10,793
Deposits and balances from customers	20	363,573	394,360
Derivatives	23	4,994	5,290
Certificates of deposit issued	21	1,007	3,105
Other liabilities		25,552	16,545
Subordinated liability	22	2,350	2,339
		<u>407,264</u>	<u>432,432</u>
Total liabilities		<u>407,264</u>	<u>432,432</u>
Equity			
Share capital	24	8,995	8,995
Other equity instruments	25	1,400	1,400
Reserves		36,819	33,048
		<u>47,214</u>	<u>43,443</u>
Total equity		<u>47,214</u>	<u>43,443</u>
Total liabilities and equity		<u>454,478</u>	<u>475,875</u>

The notes on 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 equity instruments	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2023	8,995	1,400	(1,559)	34,607	43,443
Total comprehensive income	–	–	20	3,791	3,811
Dividends (Note 12)	–	–	–	(40)	(40)
Balance as at 30 June 2023	<u>8,995</u>	<u>1,400</u>	<u>(1,539)</u>	<u>38,358</u>	<u>47,214</u>
Balance as at 1 January 2022	8,995	–	2,299	31,748	43,042
Redemption of preference shares (Note 24(ii))	(1,400)	–	–	–	(1,400)
Transfer (Note 24 (ii))	1,400	–	–	(1,400)	–
Issue of perpetual capital securities (Note 25)	–	1,400	–	–	1,400
Total comprehensive income	–	–	(3,043)	2,155	(888)
Dividends (Note 12)	–	–	–	(45)	(45)
Balance as at 30 June 2022	8,995	1,400	(744)	32,458	42,109
Total comprehensive income	–	–	(815)	3,399	2,584
Dividends (Note 12)	–	–	–	(1,250)	(1,250)
Balance as at 31 December 2022	<u>8,995</u>	<u>1,400</u>	<u>(1,559)</u>	<u>34,607</u>	<u>43,443</u>

As at 30 June 2023, HK\$666 million was earmarked from the retained earnings (31 December 2022: HK\$728 million). The regulatory reserve is 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 (“HKMA”).

The notes on 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 2023	30 June 2022
Cash flows from operating activities			
Profit before income tax		4,492	2,574
Adjustments for non-cash items:			
Allowances for credit and other losses		185	249
Write-off of other assets		–	1
Depreciation and amortisation		266	271
Advances and other assets written off		(214)	(167)
Recoveries of advances and other assets written off		29	25
Interest expense for subordinated liability		78	48
Interest expense on lease liabilities	29(a)	9	11
Profit before changes in operating assets and liabilities		4,845	3,012
Increase/(decrease) in:			
Due to banks		(1,005)	4,764
Deposits and balances from customers		(30,787)	22,665
Other liabilities and derivatives		8,355	8,097
Certificates of deposit issued		(2,098)	5,044
Decrease/(increase) in:			
Due from banks		(1,766)	11,467
Government securities and treasury bills		(8,723)	(16,328)
Loans and advances to customers		7,621	(28,010)
Bank and corporate securities		758	(2,230)
Other assets and derivatives		(788)	(2,114)
Net cash (used in)/generated from operating activities before income tax		(23,588)	6,367
Hong Kong profits tax paid		(221)	(924)
Overseas tax paid		(1)	–
Net cash (used in)/generated from operating activities		(23,810)	5,443
Cash flows from investing activities			
Purchase of fixed assets		(88)	(80)

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 2023	30 June 2022
Net cash used in investing activities		<u>(88)</u>	<u>(80)</u>
Cash flows from financing activities			
Principal element of lease payments	29(a)	(130)	(130)
Interest element of lease payments	29(a)	(9)	(11)
Redemption of preference shares		-	(1,400)
Issue of perpetual capital securities		-	1,400
Dividends Paid*	12	(40)	(45)
Interest paid for subordinated liability		<u>(77)</u>	<u>(45)</u>
Net cash used in financing activities		<u>(256)</u>	<u>(231)</u>
Exchange differences and other adjustments		<u>11</u>	<u>25</u>
Net change in cash and cash equivalents		(24,143)	5,157
Cash and cash equivalents as at 1 January		<u>97,450</u>	<u>106,502</u>
Cash and cash equivalents as at 30 June	29(b)	<u><u>73,307</u></u>	<u><u>111,659</u></u>

* includes distributions paid on capital securities classified as equity (2023: \$40 million; 2022: Nil)

The notes on 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 <https://www.dbs.com/hongkong/en/financials/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 2022 as disclosed in the Annual Report and Financial Statements for 2022.

The adoption of HKFRS and interpretations effective from 1 January 2023 do 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 2022.

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 2022 that is included in the Interim Report 2023 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 2022 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 together with Regulatory Disclosure Statements fulfill the disclosure requirements in accordance with the Banking (Disclosure) Rules.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

3 Interest income

In HK\$ millions	For the six months ended	
	30 June 2023	30 June 2022
Cash and balances with central banks and due from banks	1,792	480
Customer non-trade loans	5,902	2,583
Trade assets	307	209
Securities and others	1,375	398
Total interest income	<u>9,376</u>	<u>3,670</u>
Comprising:		
Interest income from financial assets at fair value through profit or loss ("FVPL")	166	41
Interest income from financial assets at FVOCI	900	164
Interest income from financial assets at amortised cost	8,310	3,465
	<u>9,376</u>	<u>3,670</u>

4 Interest expense

In HK\$ millions	For the six months ended	
	30 June 2023	30 June 2022
Deposits and balances from customers	3,821	451
Interest expense on subordinated liability	78	48
Other interest expense	287	36
Total interest expense	<u>4,186</u>	<u>535</u>
Comprising:		
Interest expense from financial liabilities at FVPL	134	14
Interest expense from financial liabilities not at FVPL ^(a)	4,052	521
	<u>4,186</u>	<u>535</u>

^(a) Includes interest expense on lease liabilities of HK\$9 million (2022: HK\$11 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 2023	30 June 2022
Fee and commission income	2,082	1,869
Less: Fee and commission expense	(344)	(276)
Net fee and commission income	1,738	1,593
Comprising:		
– Wealth management	1,038	891
– Trade and transaction services ^(a)	411	438
– Cards	130	136
– Loan-related	157	123
– Stockbroking	2	5
	1,738	1,593
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at FVPL	614	524
– Trust or other fiduciary activities	39	33
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at FVPL	258	184

^(a) Includes trade & remittances, guarantees and deposit-related fees.

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 2023	30 June 2022
Net trading income		
– Foreign exchange	508	587
– Interest rates, equities and others	(47)	164
	<u>461</u>	<u>751</u>
Net gain from financial instruments designated at fair value		
	<u>80</u>	<u>6</u>
	<u>541</u>	<u>757</u>

7 Net income/(loss) from investment securities

In HK\$ millions	For the six months ended	
	30 June 2023	30 June 2022
Debt securities at:		
– FVOCI	8	(54)
– Amortised cost	20	–
Equity securities at FVOCI	<u>15</u>	<u>9</u>
Total	<u>43</u>	<u>(45)</u>
Of which dividend income from:		
– Unlisted investments	<u>15</u>	<u>9</u>
Total	<u>15</u>	<u>9</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 2023	30 June 2022
Rental income	10	10
Others	24	26
Total	<u>34</u>	<u>36</u>

9 Total expenses

In HK\$ millions	For the six months ended	
	30 June 2023	30 June 2022
Employee benefits		
– Salaries and other short-term employee benefits	1,862	1,719
– Pensions	108	89
– Share-based compensation	50	37
Premises and equipment expenses excluding depreciation		
– Expenses relating to short-term leases and low-value assets	2	3
– Others	87	78
Depreciation expenses		
– Owned properties and other fixed assets	137	140
– Leased properties and other fixed assets	129	131
Auditor's remuneration	5	5
Computerisation expenses	160	165
Other operating expenses	329	286
Total	<u>2,869</u>	<u>2,653</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 2023	30 June 2022
Specific allowances		
Loans and advances to customers	204	266
Off-balance sheet credit exposures and other assets	1	–
General allowances		
Loans and advances to customers	(3)	(32)
Off-balance sheet credit exposures and other assets	(17)	15
Total	<u>185</u>	<u>249</u>

11 Income tax expense

In HK\$ millions	For the six months ended	
	30 June 2023	30 June 2022
Hong Kong profits tax	661	411
Overseas tax	3	–
Current income tax	664	411
Deferred income tax	37	8
	<u>701</u>	<u>419</u>

Hong Kong profits tax has been provided at 16.5% (first half of 2022:16.5%) 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

Interim dividend of HK\$1,250 million for ordinary shareholders and preferential dividend of HK\$45 million for holder of Class A preference shares were paid during 2022. This also includes distributions paid on capital securities classified as equity (2023: \$40 million; 2022: Nil).

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 2023	As at 31 December 2022
Cash in hand	601	846
Balances with central banks	<u>1,982</u>	<u>4,027</u>
	<u>2,583</u>	<u>4,873</u>

14 Government securities and treasury bills

In HK\$ millions	As at 30 June 2023	As at 31 December 2022
Mandatorily at FVPL	13,496	2,940
FVOCI	53,402	46,867
Amortised cost	<u>9,986</u>	<u>10,277</u>
	76,884	60,084
Allowance for credit and other losses	<u>—</u>	<u>(1)</u>
	<u>76,884</u>	<u>60,083</u>

As at 30 June 2023, there were no impaired, overdue or rescheduled FVOCI and amortised cost financial assets (31 December 2022: Nil).

As at 30 June 2023, the fair value of the above debt securities classified as amortised cost was HK\$9,847 million (31 December 2022: HK\$10,070 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 2023	As at 31 December 2022
Balances with banks	<u>5,694</u>	<u>5,431</u>
Placements with and advances to banks		
Remaining maturity		
– Within one month	44,363	72,720
– One year or less but over one month	13,263	12,941
– Over one year and others	<u>7,835</u>	<u>7,798</u>
	<u>65,461</u>	<u>93,459</u>
Gross amount due from banks	71,155	98,890
Allowance for credit and other losses	<u>(1)</u>	<u>(1)</u>
Net amount due from banks	<u><u>71,154</u></u>	<u><u>98,889</u></u>

16 Bank and corporate securities

In HK\$ millions	As at 30 June 2023	As at 31 December 2022
Mandatorily at FVPL	982	794
FVOCI	14,189	14,040
Amortised cost	<u>7,272</u>	<u>8,702</u>
	<u>22,443</u>	23,536
Allowance for credit and other losses	<u>(1)</u>	<u>(1)</u>
	<u><u>22,442</u></u>	<u><u>23,535</u></u>

As at 30 June 2023, there were no impaired, overdue or rescheduled FVOCI and amortised cost financial assets (31 December 2022: Nil).

As at 30 June 2023, the fair value of the above debt securities classified as amortised cost was HK\$7,094 million (31 December 2022: HK\$8,556 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 2023	As at 31 December 2022
Gross loans and advances to customers	272,067	279,660
Less: Allowances for credit and other losses		
– Specific allowances	(1,506)	(1,459)
– General allowances	(2,002)	(2,005)
	<u>268,559</u>	<u>276,196</u>
Comprising:		
– Trade bills	2,831	3,991
– Loans	265,728	272,205
	<u>268,559</u>	<u>276,196</u>

Impaired advances

	As at 30 June 2023	As at 31 December 2022
	HK\$ millions	HK\$ millions
	% of gross loans and advances to customers	% of gross loans and advances to customers
Gross impaired advances	3,136	3,484
Specific allowances	(1,506)	(1,459)
	<u>1,630</u>	<u>2,025</u>
Impaired advances covered by collateral	<u>1,040</u>	<u>1,227</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
2023						
Specific allowances						
Loans and advances to customers	1,459	204	29	(214)	28	1,506
Others ^(a)	8	1	-	-	-	9
Total specific allowances	1,467	205	29	(214)	28	1,515
General allowances						
Loans and advances to customers	2,005	(3)	-	-	-	2,002
Others ^(a)	156	(17)	-	-	-	139
Total general allowances	2,161	(20)	-	-	-	2,141
Total allowances for credit and other losses	3,628	185	29	(214)	28	3,656

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
2022						
Specific allowances						
Loans and advances to customers	1,355	461	55	(444)	32	1,459
Others ^(a)	8	–	–	–	–	8
Total specific allowances	1,363	461	55	(444)	32	1,467
General allowances						
Loans and advances to customers	2,096	(91)	–	–	–	2,005
Others ^(a)	136	20	–	–	–	156
Total general allowances	2,232	(71)	–	–	–	2,161
Total allowances for credit and other losses	3,595	390	55	(444)	32	3,628

^(a) Includes allowances for off-balance sheet exposures, other assets, government securities and treasury bills, bank and corporate securities and due from banks.

18 Other assets

The balance as at 30 June 2023 included allowance for credit and other losses of HK\$12 million (31 December 2022: HK\$10 million).

19 Properties and other fixed assets

In HK\$ millions	As at 30 June 2023	As at 31 December 2022
Owned properties and other fixed assets (a)	2,070	2,119
Leased properties and other fixed assets (b)	1,614	1,743
	3,684	3,862

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 2023	23	2,350	2,643	5,016	33	5,049
Additions	–	23	65	88	–	88
Disposals/written off	–	(2)	(2)	(4)	–	(4)
As at 30 June 2023	<u>23</u>	<u>2,371</u>	<u>2,706</u>	<u>5,100</u>	<u>33</u>	<u>5,133</u>
Accumulated depreciation and impairment						
As at 1 January 2023	17	997	1,895	2,909	21	2,930
Charge for the period	–	10	127	137	–	137
Disposals/written off	–	(2)	(2)	(4)	–	(4)
As at 30 June 2023	<u>17</u>	<u>1,005</u>	<u>2,020</u>	<u>3,042</u>	<u>21</u>	<u>3,063</u>
Net book value						
As at 30 June 2023	<u><u>6</u></u>	<u><u>1,366</u></u>	<u><u>686</u></u>	<u><u>2,058</u></u>	<u><u>12</u></u>	<u><u>2,070</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 2022	23	2,347	2,781	5,151	33	5,184
Additions	–	5	242	247	–	247
Disposals/written off	–	(2)	(380)	(382)	–	(382)
As at 31 December 2022	23	2,350	2,643	5,016	33	5,049
Accumulated depreciation and impairment						
As at 1 January 2022	17	983	2,007	3,007	21	3,028
Charge for the year	–	16	259	275	–	275
Disposals/written off	–	(2)	(371)	(373)	–	(373)
As at 31 December 2022	17	997	1,895	2,909	21	2,930
Net book value						
As at 31 December 2022	6	1,353	748	2,107	12	2,119

(b) Leased properties and other fixed assets

In HK\$ millions	Properties	Other fixed assets	Total
As at 1 January 2023	1,602	141	1,743
Additions of right-of-use assets during the period	–	–	–
Changes of lease terms	–	–	–
Depreciation charge for the period	(119)	(10)	(129)
Balance as at 30 June 2023	1,483	131	1,614

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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 2022	1,748	160	1,908
Additions of right-of-use assets during the year	3	–	3
Changes of lease terms	93	–	93
Depreciation charge for the year	(242)	(19)	(261)
Balance as at 31 December 2022	<u>1,602</u>	<u>141</u>	<u>1,743</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 2023	As at 31 December 2022
Deposits from customers at amortised cost	353,814	385,374
Structured investment deposits classified as financial liabilities designated at FVPL	9,759	8,986
	<u>363,573</u>	<u>394,360</u>
Analysed by:		
– Demand deposits and current accounts	49,938	65,937
– Savings deposits	140,643	159,106
– Time, call and notice deposits	172,992	169,317
	<u>363,573</u>	<u>394,360</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 2023	As at 31 December 2022
Certificates of deposit issued, measured at amortised cost	<u>1,007</u>	<u>3,105</u>

22 Subordinated liability

On 13 December 2022, the Bank issued a new subordinated loan (the “Loan”) of US\$300 million to DBS Group Holdings Ltd (“DBSH”). Interest on the Loan is payable quarterly at USD 3-month SOFR plus 1.87% per annum. The Loan has a repayment date of 13 December 2032 and may be prepaid on 13 December 2027 or any date thereafter. The terms require the Loan to be written off if and when the 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 qualifies 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 2023			
Interest rate derivatives			
– Interest rate swaps	69,046	1,070	3,711
– Interest rate futures	2,507	2	1
– Interest rate options	–	–	–
Sub-total	<u>71,553</u>	<u>1,072</u>	<u>3,712</u>
Foreign exchange (FX) derivatives			
– FX contracts	111,057	582	664
– Currency swaps	17,961	1,300	358
– Currency options	45,221	156	156
Sub-total	<u>174,239</u>	<u>2,038</u>	<u>1,178</u>
Equity derivative contracts	3,216	86	86
Credit derivative contracts	–	–	–
Commodity derivative contracts	774	18	18
Gross total derivatives	<u>249,782</u>	<u>3,214</u>	<u>4,994</u>
Included in the above are derivatives held for:			
Cash flow hedges			
– Interest rate swaps	30,600	–	2,745
– Currency swaps	9,296	1,154	213
Sub-total	<u>39,896</u>	<u>1,154</u>	<u>2,958</u>
Total derivatives held for hedging	<u>39,896</u>	<u>1,154</u>	<u>2,958</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	Positive fair values	Negative fair values
As at 31 December 2022			
Interest rate derivatives			
– Interest rate swaps	55,629	1,188	3,831
– Interest rate futures	10,527	22	–
– Interest rate options	1,560	21	21
Sub-total	<u>67,716</u>	<u>1,231</u>	<u>3,852</u>
Foreign exchange (FX) derivatives			
– FX contracts	147,153	674	635
– Currency swaps	20,051	887	548
– Currency options	49,090	131	131
Sub-total	<u>216,294</u>	<u>1,692</u>	<u>1,314</u>
Equity derivative contracts	2,585	52	52
Credit derivative contracts	463	33	33
Commodity derivative contracts	1,744	39	39
Gross total derivatives	<u>288,802</u>	<u>3,047</u>	<u>5,290</u>
Included in the above are derivatives held for:			
Cash flow hedges			
– Interest rate swaps	30,600	–	2,772
– Currency swaps	9,439	731	392
Sub-total	<u>40,039</u>	<u>731</u>	<u>3,164</u>
Total derivatives held for hedging	<u>40,039</u>	<u>731</u>	<u>3,164</u>

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.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

24 Share capital

	As at 30 June 2023		As at 31 December 2022	
	Number of shares	HK\$ million	Number of shares	HK\$ million
Ordinary shares				
As at 1 January	7,000 million	8,995	7,000 million	7,595
Redemption of preference shares (ii)	–	–	–	1,400
As at end of period	<u>7,000 million</u>	<u>8,995</u>	<u>7,000 million</u>	<u>8,995</u>
Preference shares (i)				
As at 1 January	–	–	140	1,400
Redemption of preference shares	–	–	(140)	(1,400)
As at end of period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total issued capital (ii)		<u>8,995</u>		<u>8,995</u>

- (i) On 13 January 2022, the Bank redeemed its 140 non-cumulative Class A preference shares from DBSH for a consideration of HK\$1,400 million and the preference shares were cancelled upon the redemption.

On the same date, the Bank issued Perpetual Capital Securities (“PCS”) of HK\$1,400 million to its parent holding company, DBSH.

- (ii) The total issued capital as at 31 December 2022 included redemption of preference shares via payment out of distributable profits in accordance with the requirements of the Hong Kong Companies Ordinance.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

25 Other equity instruments

On 13 January 2022, the Bank issued Perpetual Capital Securities (“PCS”) of HK\$1,400 million to its parent holding company, DBSH. Distributions are payable annually at the rate of 2.86% per annum at the discretion of the Bank. The PCS are redeemable on 13 January 2027 or any date thereafter. The terms require the PCS to be written off if and when the 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 holder of the PCS is subject to the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority. The PCS qualify as Additional Tier 1 capital of the Bank under the Banking (Capital) Rules made by the HKMA.

26 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 2023	As at 31 December 2022
Direct credit substitutes	204	195
Transaction-related contingencies	4,603	5,277
Trade-related contingencies	5,566	6,343
Forward deposits placed	6,111	–
Other commitments with an original maturity of not more than one year	890	2,360
Other commitments with an original maturity of more than one year	23,635	26,031
Other commitments which are unconditionally cancellable	<u>200,827</u>	<u>192,966</u>
	<u>241,836</u>	<u>233,172</u>
Credit risk-weighted amount	<u>25,606</u>	<u>23,996</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\$1,059 million (31 December 2022: HK\$1,037 million).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

27 Fair Value of financial instruments

(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 underlying instruments 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)

27 Fair Value of financial instruments (continued)

(a) Valuation process (continued)

The Group uses various market accepted benchmark interest 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 modelling 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.

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, the 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 2023, there was no Day 1 P&L reserve (31 December 2022: Nil).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

27 Fair Value of financial instruments (continued)

(a) Valuation process (continued)

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 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 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.

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 a 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).

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

27 Fair Value of financial instruments (continued)

(b) Fair value hierarchy (continued)

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 2023				
Assets				
Financial assets at FVPL				
– Government securities and treasury bills	13,496	–	–	13,496
– Bank and corporate securities	–	982	–	982
FVOCI financial assets				
– Government securities and treasury bills	53,348	54	–	53,402
– Bank and corporate securities	11,409	2,474	306	14,189
Derivatives	2	3,212	–	3,214
Liabilities				
Financial liabilities at FVPL				
– Payable in respect of short sale of securities	12,407	–	–	12,407
– Deposits and balances from customers	–	9,759	–	9,759
– Due to banks	–	1,877	–	1,877
Derivatives	1	4,993	–	4,994

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

27 Fair value of financial instruments (continued)

(b) Fair value hierarchy (continued)

In HK\$ millions	Level 1	Level 2	Level 3	Total
As at 31 December 2022				
Assets				
Financial assets at FVPL				
– Government securities and treasury bills	2,940	–	–	2,940
– Bank and corporate securities	–	794	–	794
FVOCI financial assets				
– Government securities and treasury bills	46,431	436	–	46,867
– Bank and corporate securities	11,355	2,368	317	14,040
Derivatives	22	3,025	–	3,047
Liabilities				
Financial liabilities at FVPL				
– Payable in respect of short sale of securities	2,037	–	–	2,037
– Deposits and balances from customers	–	8,986	–	8,986
– Due to banks	–	1,672	–	1,672
Derivatives	–	5,290	–	5,290

During the period, there were no transfer between fair value hierarchy (31 December 2022: Nil). The bank and corporate securities classified as Level 3 comprised 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 as shown below. The bases of arriving at their fair values are as follows:

(i) Due from banks

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

(ii) Loans and advances to customers

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

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

27 Fair Value of financial instruments (continued)

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

(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.

28 Material related-party transactions

During the period ended 30 June 2023, the Group acquired loans and advances to customers of HK\$4.8 billion (financial year ended 31 December 2022: HK\$52.5 billion) and undrawn commitment of HK\$0.2 billion (financial year ended 31 December 2022: HK\$8.8 billion) from DBS Bank Ltd., HK Branch through direct purchase and funded risk participation. These transactions were conducted on an arm's length basis.

Apart from the foregoing, there were no changes in the related party transaction described in 2022 Annual Report that have had a material impact on the financial position or performance of the Group in the six months ended 30 June 2023.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

29 Notes to the condensed consolidated cash flow statement

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

In HK\$ millions	Lease liabilities	
	2023	2022
Balance as at 1 January	1,823	1,992
Cash outflow from financing activities	(139)	(141)
Interest element of lease liabilities	9	11
Net changes due to addition and changes of lease terms	—	31
Balance as at 30 June	<u>1,693</u>	<u>1,893</u>

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

In HK\$ millions	As at	As at
	30 June 2023	30 June 2022
Cash and balances with central banks	2,583	9,350
Due from banks		
– Balances with banks	5,694	5,872
– Placements with and advances to banks repayable with original maturity within three months	44,690	83,232
Bills and notes repayable with original maturity within three months	20,340	13,205
	<u>73,307</u>	<u>111,659</u>