

Dah Sing Bank, Limited



ANNOUNCEMENT OF 2017 INTERIM RESULTS

The Directors of Dah Sing Bank, Limited (the “Bank”) are pleased to present the unaudited interim financial disclosure statement of the Bank and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2017.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June

HK\$'000	Note	2017	2016	Variance %
Interest income		2,764,150	2,552,155	
Interest expense		(884,097)	(782,640)	
Net interest income	3	1,880,053	1,769,515	6.2
Fee and commission income		582,718	508,037	
Fee and commission expense		(125,022)	(109,172)	
Net fee and commission income	4	457,696	398,865	14.7
Net trading income	5	31,940	90,646	
Other operating income	6	36,697	32,663	
Operating income		2,406,386	2,291,689	5.0
Operating expenses	7	(1,231,019)	(1,121,714)	9.7
Operating profit before impairment losses		1,175,367	1,169,975	0.5
Loan impairment losses	8	(167,275)	(344,479)	(51.4)
Operating profit after impairment losses		1,008,092	825,496	22.1
Net loss on disposal of other fixed assets		(106)	(72)	
Net gain on disposal of available-for-sale securities		23,365	44,062	
Share of results of an associate		373,038	352,936	
Share of results of jointly controlled entities		9,198	7,599	
Profit before taxation		1,413,587	1,230,021	14.9
Taxation	9	(177,249)	(145,166)	
Profit for the period		1,236,338	1,084,855	14.0
Dividend				
Interim dividend		161,200	142,600	

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

HK\$'000	2017	2016
Profit for the period	<u>1,236,338</u>	<u>1,084,855</u>
Other comprehensive income for the period		
Items that may be reclassified to the consolidated income statement:		
Investments in securities		
Fair value gain on available-for-sale securities recognised in equity	232,948	166,975
Fair value gain realised and transferred to income statement upon:		
- Disposal of available-for-sale securities	(23,365)	(44,062)
Deferred income tax on movements in investment revaluation reserve	<u>(41,571)</u>	<u>(17,812)</u>
	<u>168,012</u>	<u>105,101</u>
Exchange differences arising on translation of the financial statements of foreign entities	<u>166,116</u>	<u>(145,433)</u>
Other comprehensive income/ (loss) for the period, net of tax	<u>334,128</u>	<u>(40,332)</u>
Total comprehensive income for the period, net of tax	<u>1,570,466</u>	<u>1,044,523</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$'000	Note	As at 30 Jun 2017	As at 31 Dec 2016
ASSETS			
Cash and balances with banks		12,989,689	15,057,913
Placements with banks maturing between one and twelve months		11,369,561	8,430,854
Trading securities	10	8,971,786	8,871,844
Financial assets designated at fair value through profit or loss	10	355,764	21,137
Derivative financial instruments	11	570,362	1,177,322
Advances and other accounts	12	124,284,913	120,086,137
Available-for-sale securities	14	34,871,538	32,739,161
Held-to-maturity securities	15	7,477,166	10,223,840
Investment in an associate		4,708,939	4,253,393
Investments in jointly controlled entities		84,610	75,412
Goodwill		811,690	811,690
Intangible assets		58,446	58,640
Premises and other fixed assets	16	2,986,994	3,005,107
Investment properties	17	964,449	964,449
Current income tax assets	21	585	1,605
Deferred income tax assets	21	72,551	68,286
Total assets		210,579,043	205,846,790
LIABILITIES			
Deposits from banks		2,217,141	2,318,203
Derivative financial instruments	11	616,002	1,343,418
Trading liabilities		7,856,209	7,748,887
Deposits from customers	18	157,929,929	154,123,321
Certificates of deposit issued	19	6,203,507	6,559,976
Subordinated notes	20	5,550,148	7,146,163
Other accounts and accruals		5,281,941	3,003,398
Current income tax liabilities		257,434	159,165
Deferred income tax liabilities	21	131,412	89,069
Total liabilities		186,043,723	182,491,600
EQUITY			
Share capital		6,200,000	6,200,000
Other reserves (including retained earnings)	22	18,335,320	17,155,190
Total equity		24,535,320	23,355,190
Total equity and liabilities		210,579,043	205,846,790

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

HK\$'000	Attributable to the Shareholders of the Bank			Total equity
	Share capital	Other reserves	Retained earnings	
Balance at 1 January 2017	6,200,000	1,097,188	16,058,002	23,355,190
Profit for the period	-	-	1,236,338	1,236,338
Other comprehensive income for the period	-	334,128	-	334,128
Provision for equity-settled share-based compensation	-	264	-	264
2016 final dividend	-	-	(390,600)	(390,600)
Balance at 30 June 2017	6,200,000	1,431,580	16,903,740	24,535,320

HK\$'000	Attributable to the Shareholders of the Bank			Total equity
	Share capital	Other reserves	Retained earnings	
Balance at 1 January 2016	6,200,000	1,203,501	14,503,395	21,906,896
Profit for the period	-	-	1,084,855	1,084,855
Other comprehensive loss for the period	-	(40,332)	-	(40,332)
Provision for equity-settled share-based compensation	-	568	-	568
2015 final dividend	-	-	(378,200)	(378,200)
Balance at 30 June 2016	6,200,000	1,163,737	15,210,050	22,573,787

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

HK\$'000	2017	2016
Cash flows from operating activities		
Cash absorbed by operations	(2,248,393)	(1,995,738)
Interest paid on certificates of deposit issued	(58,316)	(35,228)
Hong Kong profits tax paid	(78,918)	(61,230)
Overseas tax refunded/ (paid)	<u>1</u>	<u>(1)</u>
Net cash used in operating activities	<u>(2,385,626)</u>	<u>(2,092,197)</u>
Cash flows from investing activities		
Purchase of premises, investment properties and other fixed assets	(65,550)	(117,165)
Proceeds from disposal of other fixed assets	<u>10</u>	<u>5</u>
Net cash used in investing activities	<u>(65,540)</u>	<u>(117,160)</u>
Cash flows from financing activities		
Repayment of subordinated notes	(1,660,074)	-
Interest paid on subordinated notes and debt securities issued	(185,780)	(137,623)
Dividend paid on ordinary shares	<u>(390,600)</u>	<u>(378,200)</u>
Net cash used in financing activities	<u>(2,236,454)</u>	<u>(515,823)</u>
Net decrease in cash and cash equivalents	(4,687,620)	(2,725,180)
Cash and cash equivalents at beginning of the period	19,621,212	17,149,454
Effect of foreign exchange rate changes	<u>98,623</u>	<u>(35,274)</u>
Cash and cash equivalents at end of the period	<u>15,032,215</u>	<u>14,389,000</u>
Analysis of the balance of cash and cash equivalents:		
Cash and balances with banks	1,171,185	1,433,004
Money at call and short notice with an original maturity within three months	8,506,250	7,271,420
Treasury bills included in trading securities	1,776,607	2,619,618
Treasury bills included in available-for-sale securities	299,965	-
Placements with banks with an original maturity within three months	<u>3,278,208</u>	<u>3,064,958</u>
	<u>15,032,215</u>	<u>14,389,000</u>

Note:

1. General information

Dah Sing Bank, Limited (the “Bank”) and its subsidiaries (collectively the “Group”) provide retail banking, commercial banking and related financial services in Hong Kong, Macau, and the People’s Republic of China.

The Bank is a licensed financial institution incorporated in Hong Kong. The address of its registered office is 36th Floor, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong.

The ultimate holding company is Dah Sing Financial Holdings Limited, a listed company in Hong Kong.

2. Unaudited financial statements and accounting policies

The information set out in these 2017 interim consolidated financial statements does not constitute statutory financial statements.

Certain financial information in the 2017 interim consolidated financial statements is extracted from the statutory financial statements for the year ended 31 December 2016 (the “2016 financial statements”) which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and the Hong Kong Monetary Authority (“HKMA”).

The auditor’s report on the 2016 financial statements 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 section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Basis of preparation and accounting policies

Except as described below, the accounting policies and methods of computation used in the preparation of the 2017 interim consolidated financial statements are consistent with those used and described in the Group’s annual audited financial statements for the year ended 31 December 2016.

(a) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been early adopted in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for the following standards:

HKFRS 9, “Financial instruments”

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group is continuing its assessment and is making preparation of the classification and measurement of financial assets and financial liabilities in accordance with HKFRS 9. The derecognition rules have been transferred from HKAS 39, “Financial instruments: recognition and measurement” and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group considers that the current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New standards and interpretations not yet adopted (Continued)

HKFRS 9, “Financial instruments” (Continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt and equity instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15, “Revenue from contracts with customers”, lease receivables, loan commitments and certain financial guarantee contracts. The Group is continuing its assessment and development on the methodologies to determine impairment provisions based on the new expected credit losses approach under this new standard.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption by phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, “Revenue from contracts with customers”

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group’s financial statements and has identified the following areas that are likely to be affected:

- revenue from service - the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue,
- accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and
- rights of return under HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group has not yet completed the estimate of the impact of the new rules on the Group’s financial statements, which will be completed in the coming months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New standards and interpretations not yet adopted (Continued)

HKFRS 16, “Leases”

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group’s operating leases. The Group has not yet determined to what extent non-cancellable operating lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit and classification of cash flows.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or interpretations that are not yet effective that would be expected to have a material impact on the Group.

The interim consolidated financial statements are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated, and were approved by the Board of Directors for issue on 22 August 2017.

These interim consolidated financial statements have not been audited.

3. Net interest income

For the six months ended 30 June

	2017	2016
Interest income		
Cash and balances with banks	181,165	133,971
Investments in securities	486,552	384,741
Advances and other accounts	<u>2,096,433</u>	<u>2,033,443</u>
	<u>2,764,150</u>	<u>2,552,155</u>
Interest expense		
Deposits from banks/ Deposits from customers	692,616	635,271
Certificates of deposit issued	52,795	36,795
Subordinated notes	119,113	106,719
Others	<u>19,573</u>	<u>3,855</u>
	<u>884,097</u>	<u>782,640</u>
Included within interest income		
Interest income on financial assets not at fair value through profit or loss	<u>2,742,259</u>	<u>2,546,676</u>
Included within interest expense		
Interest expenses on financial liabilities not at fair value through profit or loss	<u>864,224</u>	<u>777,643</u>

For the six months ended 30 June 2017 and 30 June 2016, there was no interest income recognised on impaired assets.

4. Net fee and commission income

For the six months ended 30 June

	2017	2016
Fee and commission income		
Fee and commission income from financial assets and liabilities not at fair value through profit or loss		
- Credit related fees and commissions	77,261	78,358
- Trade finance	38,312	37,245
- Credit card	155,403	142,501
Other fee and commission income		
- Securities brokerage	49,258	36,213
- Insurance distribution and others	71,072	52,638
- Retail investment and wealth management services	118,825	102,991
- Bank services and handling fees	36,801	32,871
- Other fees	35,786	25,220
	<u>582,718</u>	<u>508,037</u>
Fee and commission expense		
Fee and commission expense from financial assets and liabilities not at fair value through profit or loss		
- Handling fees and commission	115,022	99,379
- Other fees paid	10,000	9,793
	<u>125,022</u>	<u>109,172</u>

The Group provides custody, trustee, corporate administration, and investment management services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

5. Net trading income

For the six months ended 30 June

	2017	2016
Net gain arising from dealing in foreign currencies	11,283	62,666
Net gain on trading securities	2,792	3,946
Net gain from derivatives entered into for trading purpose	11,798	15,185
Net gain arising from financial instruments subject to fair value hedge	4,856	11,100
Net gain/ (loss) arising from financial instruments designated at fair value through profit or loss	1,211	(2,251)
	<u>31,940</u>	<u>90,646</u>

6. Other operating income

For the six months ended 30 June

	2017	2016
Dividend income from investments in available-for-sale securities		
- Listed investments	4,440	4,527
- Unlisted investments	4,545	4,501
Gross rental income from investment properties	13,210	11,692
Other rental income	6,724	5,563
Others	7,778	6,380
	<u>36,697</u>	<u>32,663</u>

7. Operating expenses

For the six months ended 30 June

	2017	2016
Employee compensation and benefit expenses (including directors' remuneration)	824,798	756,179
Premises and other fixed assets expenses, excluding depreciation	158,758	154,883
Depreciation (Note 16)	89,021	80,418
Advertising and promotion costs	35,336	32,108
Printing, stationery and postage	24,400	16,270
Amortisation expenses of intangible assets	194	583
Others	98,512	81,273
	<u>1,231,019</u>	<u>1,121,714</u>

8. Loan impairment losses

For the six months ended 30 June

	2017	2016
Net charge of impairment losses on advances and other accounts		
- Individually assessed	17,952	170,975
- Collectively assessed	149,323	173,504
	<u>167,275</u>	<u>344,479</u>
Of which		
- new and additional allowances (including amounts directly written off in the period)	273,667	409,663
- releases	(86,027)	(39,348)
- recoveries	(20,365)	(25,836)
	<u>167,275</u>	<u>344,479</u>

9. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Deferred taxation is calculated in full on temporary differences under the liability method at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

For the six months ended 30 June

	2017	2016
Current income tax		
- Hong Kong profits tax	158,078	108,265
- Overseas taxation	20,128	19,217
- Under-provision in prior periods	-	1,307
Deferred income tax		
- Origination and reversal of temporary differences	<u>(957)</u>	<u>16,377</u>
Taxation	<u>177,249</u>	<u>145,166</u>

10. Trading securities and financial assets designated at fair value through profit or loss

	As at 30 Jun 2017	As at 31 Dec 2016
Trading securities:		
Debt securities:		
- Listed in Hong Kong	106,126	104,751
- Unlisted	<u>8,865,660</u>	<u>8,767,093</u>
Total trading securities	<u>8,971,786</u>	<u>8,871,844</u>
Financial assets designated at fair value through profit or loss:		
Debt securities:		
- Listed outside Hong Kong	25,927	21,137
- Unlisted	<u>329,837</u>	<u>-</u>
Total financial assets designated at fair value through profit or loss	<u>355,764</u>	<u>21,137</u>
Total trading securities and financial assets designated at fair value through profit or loss	<u>9,327,550</u>	<u>8,892,981</u>
Included within debt securities are:		
- Treasury bills which are cash equivalents	1,776,607	2,148,217
- Other treasury bills	7,149,496	6,678,945
- Government bonds	45,683	44,682
- Other debt securities issued by:		
- Corporate entities	<u>355,764</u>	<u>21,137</u>
	<u>9,327,550</u>	<u>8,892,981</u>

As at 30 June 2017 and 31 December 2016, there were no certificates of deposit held included in the above balances of trading or fair value debt securities.

11. Derivative financial instruments

The notional principal amounts of outstanding derivatives contracts and their fair values as at 30 June 2017 were as follows:

	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and futures contracts	83,407,505	296,372	(318,243)
Currency options purchased and written	18,010,027	24,558	(24,463)
b) <i>Interest rate derivatives</i>			
Interest rate futures	-	-	-
Interest rate swaps	2,979,253	8,114	(17,195)
Interest rate options purchased and written	675,821	145	(3,921)
c) <i>Equity derivatives</i>			
Equity options purchased and written	181,868	2,201	(2,201)
Total derivative assets/ (liabilities) held for trading	105,254,474	331,390	(366,023)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	26,235,752	238,972	(249,979)
Currency swaps	-	-	-
Total derivative assets/ (liabilities) held for hedging	26,235,752	238,972	(249,979)
Total recognised derivative financial assets/ (liabilities)	131,490,226	570,362	(616,002)

11. Derivative financial instruments (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as at 31 December 2016 were as follows:

	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and futures contracts	73,340,752	601,383	(621,858)
Currency options purchased and written	22,298,022	225,081	(224,946)
b) <i>Interest rate derivatives</i>			
Interest rate futures	15,509	24	-
Interest rate swaps	3,567,199	3,829	(28,379)
Interest rate options purchased and written	-	-	-
c) <i>Equity derivatives</i>			
Equity options purchased and written	98,752	814	(814)
Total derivative assets/ (liabilities) held for trading	<u>99,320,234</u>	<u>831,131</u>	<u>(875,997)</u>
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	27,306,206	346,191	(277,155)
Currency swaps	1,205,962	-	(190,266)
Total derivative assets/ (liabilities) held for hedging	<u>28,512,168</u>	<u>346,191</u>	<u>(467,421)</u>
Total recognised derivative financial assets/ (liabilities)	<u>127,832,402</u>	<u>1,177,322</u>	<u>(1,343,418)</u>

The effect of bilateral netting agreements, where applicable, has been taken into account in disclosing the fair value of derivatives.

11. Derivative financial instruments (Continued)

The credit risk weighted amounts of the above off-balance sheet exposures, where applicable, has been taken into account the effect of bilateral netting arrangements that the Group entered into, are as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Exchange rate contracts		
Forward and futures contracts	444,243	572,073
Currency swaps	-	2,412
Currency options purchased	296,314	384,954
Interest rate contracts		
Interest rate swaps	138,282	175,128
Interest rate options	1,835	-
Other contracts	6,743	3,388
	887,417	1,137,955

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

The credit risk weighted amounts are the amounts that have been calculated with reference to the Banking (Capital) Rules issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

12. Advances and other accounts

	As at 30 Jun 2017	As at 31 Dec 2016
Gross advances to customers	117,520,721	113,657,865
Less: impairment allowances		
- Individually assessed	(241,030)	(435,210)
- Collectively assessed	(444,657)	(420,545)
	<u>116,835,034</u>	<u>112,802,110</u>
Trade bills	3,697,841	4,299,974
Less: impairment allowances		
- Collectively assessed	(14,512)	(14,578)
	<u>3,683,329</u>	<u>4,285,396</u>
Other assets		
- Accounts receivable arising from sale of securities pending for settlement	62,517	-
- Accounts receivable and prepayments	2,774,162	1,955,090
- Accrued income	751,363	810,557
- Others	192,560	242,960
	<u>3,780,602</u>	<u>3,008,607</u>
Less: impairment allowances		
- Individually assessed	(9,675)	(9,351)
- Collectively assessed	(4,377)	(625)
	<u>3,766,550</u>	<u>2,998,631</u>
Advances and other accounts	<u>124,284,913</u>	<u>120,086,137</u>
Impairment allowances (Note 13)		
- Individually assessed	(250,705)	(444,561)
- Collectively assessed	(463,546)	(435,748)
	<u>(714,251)</u>	<u>(880,309)</u>

12. Advances and other accounts (Continued)

- (a) Impaired, overdue and rescheduled assets
 (i) Impaired loans

	As at 30 Jun 2017	As at 31 Dec 2016
Impaired loans and advances		
- Individually impaired (Note (1))	935,729	1,174,209
- Collectively impaired (Note (2))	22,154	21,617
	<u>957,883</u>	<u>1,195,826</u>
Impairment allowances made		
- Individually assessed (Note (3))	(241,030)	(435,210)
- Collectively assessed (Note (2))	(20,447)	(19,637)
	<u>(261,477)</u>	<u>(454,847)</u>
	<u>696,406</u>	<u>740,979</u>
Fair value of collaterals held *	<u>810,027</u>	<u>904,293</u>
Impaired loans and advances as a % of total loans and advances to customers	<u>0.82%</u>	<u>1.05%</u>

* Fair value of collateral is determined at the lower of the market value of collateral and outstanding loan balance.

Note:

- (1) Individually impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated cash flows of the loans that can be reliably estimated.
- (2) Collectively impaired loans and advances refer to those unsecured loans and advances assessed for impairment on a collective basis and which have become overdue for more than 90 days as at the reporting date. The collective impairment allowance for these impaired loans, which is a part of the overall collective impairment allowances, is shown above.
- (3) The above individual impairment allowances were made after taking into account the value of collaterals in respect of such advances as at 30 June/ 31 December.

12. Advances and other accounts (Continued)

(a) Impaired, overdue and rescheduled assets (Continued)

(ii) Gross amount of overdue loans

	As at 30 Jun 2017		As at 31 Dec 2016	
	Gross amount of overdue loans	% of total	Gross amount of overdue loans	% of total
Gross advances to customers which have been overdue for:				
- six months or less but over three months	125,461	0.11	188,025	0.17
- one year or less but over six months	268,626	0.23	425,466	0.37
- over one year	583,627	0.50	473,646	0.42
	<u>977,714</u>	<u>0.84</u>	<u>1,087,137</u>	<u>0.96</u>
Market value of securities held against the secured overdue advances	<u>1,101,301</u>		<u>1,095,775</u>	
Secured overdue advances	840,174		839,520	
Unsecured overdue advances	<u>137,540</u>		<u>247,617</u>	
Individual impairment allowances	<u>210,349</u>		<u>349,070</u>	

Collateral held mainly represented pledged deposits, mortgages over properties and charges over other fixed assets such as equipment.

12. Advances and other accounts (Continued)

(a) Impaired, overdue and rescheduled assets (Continued)

(iii) Rescheduled advances net of amounts included in overdue advances shown above

	As at 30 Jun 2017	% of total	As at 31 Dec 2016	% of total
Advances to customers	<u>350,061</u>	<u>0.30</u>	<u>394,408</u>	<u>0.35</u>
Impairment allowances	<u>9,238</u>		<u>24,982</u>	

(iv) Trade bills

	As at 30 Jun 2017	As at 31 Dec 2016
Trade bills which have been overdue for:		
- six months or less but over three months	3,592	-
- one year or less but over six months	4,308	4,644
- over one year	<u>11,053</u>	<u>6,337</u>
	<u>18,953</u>	<u>10,981</u>

As at 30 June 2017 and 31 December 2016, no trade bills were impaired.

(b) Repossessed collateral

Repossessed collateral held is as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Nature of assets		
Repossessed properties	278,711	131,243
Others	<u>7,694</u>	<u>6,842</u>
	<u>286,405</u>	<u>138,085</u>

Repossessed collaterals are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness of the borrowers concerned.

13. Impairment allowances against advances to customers and other accounts

	Individually assessed	Collectively assessed	Total
At 1 January 2017	444,561	435,748	880,309
Impairment losses charged	17,952	149,323	167,275
Loans written off as uncollectible	(214,764)	(142,008)	(356,772)
Recoveries of advances written off in previous years	1,993	18,372	20,365
Exchange and other adjustments	963	2,111	3,074
	<u>250,705</u>	<u>463,546</u>	<u>714,251</u>
At 30 June 2017			
Deducted from:			
Trade bills	-	14,512	14,512
Advances to customers	241,030	444,657	685,687
Accrued interest and other accounts	9,675	4,377	14,052
	<u>250,705</u>	<u>463,546</u>	<u>714,251</u>
	Individually assessed	Collectively assessed	Total
At 1 January 2016	347,538	367,229	714,767
Impairment losses charged	239,346	324,221	563,567
Loans written off as uncollectible	(158,166)	(285,907)	(444,073)
Recoveries of advances written off in previous years	18,513	36,082	54,595
Exchange and other adjustments	(2,670)	(5,877)	(8,547)
	<u>444,561</u>	<u>435,748</u>	<u>880,309</u>
At 31 December 2016			
Deducted from:			
Trade bills	-	14,578	14,578
Advances to customers	435,210	420,545	855,755
Accrued interest and other accounts	9,351	625	9,976
	<u>444,561</u>	<u>435,748</u>	<u>880,309</u>

14. Available-for-sale securities

	As at 30 Jun 2017	As at 31 Dec 2016
Debt securities:		
- Listed in Hong Kong	13,941,027	14,390,816
- Listed outside Hong Kong	14,840,763	13,928,043
- Unlisted	<u>5,553,786</u>	<u>3,953,840</u>
	<u>34,335,576</u>	<u>32,272,699</u>
Equity securities:		
- Listed in Hong Kong	295,349	254,705
- Unlisted	<u>240,613</u>	<u>211,757</u>
	<u>535,962</u>	<u>466,462</u>
Total available-for-sale securities	<u>34,871,538</u>	<u>32,739,161</u>
Included within debt securities are:		
- Treasury bills which are cash equivalents	299,965	1,899,588
- Other treasury bills	8,091,344	5,462,256
- Government bonds	192,439	238,910
- Other debt securities	<u>25,751,828</u>	<u>24,671,945</u>
	<u>34,335,576</u>	<u>32,272,699</u>

Note:

As at 30 June 2017 and 31 December 2016, there were no certificates of deposit held included in the above balances of investments in debt securities.

Available-for-sale securities are analysed by categories of issuers as follows:

- Central governments and central banks	8,583,748	7,600,754
- Public sector entities	537,766	603,533
- Banks and other financial institutions	4,520,370	3,549,923
- Corporate entities	21,227,201	20,982,498
- Others	<u>2,453</u>	<u>2,453</u>
	<u>34,871,538</u>	<u>32,739,161</u>

15. Held-to-maturity securities

	As at 30 Jun 2017	As at 31 Dec 2016
Debt securities:		
- Listed in Hong Kong	2,200,648	3,167,081
- Listed outside Hong Kong	2,024,396	3,731,661
- Unlisted	3,252,122	3,325,098
	<u>7,477,166</u>	<u>10,223,840</u>
 Included within debt securities are:		
- Certificates of deposit held	400,000	400,000
- Treasury bills	2,290,174	2,401,808
- Government bonds	561,948	523,290
- Other debt securities	4,225,044	6,898,742
	<u>7,477,166</u>	<u>10,223,840</u>
 Held-to-maturity securities are analysed by categories of issuers as follows:		
- Central governments and central banks	2,852,122	2,925,098
- Banks and other financial institutions	2,113,993	2,615,100
- Corporate entities	2,511,051	4,683,642
	<u>7,477,166</u>	<u>10,223,840</u>

16. Premises and other fixed assets

	Premises	Furniture, equipment and motor vehicles	Total
Six months ended 30 June 2017			
Opening net book amount	2,589,567	415,540	3,005,107
Additions	-	65,550	65,550
Disposals	-	(116)	(116)
Depreciation charge (Note 7)	(29,574)	(59,447)	(89,021)
Exchange difference	3,941	1,533	5,474
Closing net book amount	<u>2,563,934</u>	<u>423,060</u>	<u>2,986,994</u>
At 30 June 2017			
Cost	2,922,612	1,019,568	3,942,180
Accumulated depreciation	<u>(358,678)</u>	<u>(596,508)</u>	<u>(955,186)</u>
Net book amount	<u>2,563,934</u>	<u>423,060</u>	<u>2,986,994</u>
Year ended 31 December 2016			
Opening net book amount	2,475,568	396,019	2,871,587
Additions	90,496	137,481	227,977
Reclassification from investment properties to premises	93,920	-	93,920
Reclassification from premises to investment properties	(7,176)	-	(7,176)
Disposals	-	(444)	(444)
Depreciation charge	(56,309)	(114,114)	(170,423)
Exchange difference	(6,932)	(3,402)	(10,334)
Closing net book amount	<u>2,589,567</u>	<u>415,540</u>	<u>3,005,107</u>
At 31 December 2016			
Cost	2,918,373	975,367	3,893,740
Accumulated depreciation	<u>(328,806)</u>	<u>(559,827)</u>	<u>(888,633)</u>
Net book amount	<u>2,589,567</u>	<u>415,540</u>	<u>3,005,107</u>

17. Investment properties

	Six months ended 30 Jun 2017	Year ended 31 Dec 2016
At beginning of the period/ year	964,449	930,257
Additions	-	29,496
Transfer from acquisition of a subsidiary	-	48,650
Reclassification from investment properties to premises	-	(93,920)
Reclassification from premises to investment properties	-	35,601
Fair value gains on revaluation	-	14,365
	964,449	964,449

The Group's investment properties were last revalued at 31 December 2016 by adopting the direct comparison approach or the income capitalisation approach and with reference to recent transactions for similar premises as far as practicable by independent, professionally qualified valuer Savills (Valuation and Professional Services) Limited for investment properties in Hong Kong and Mainland China, and by Savills (Macau) Limited for investment properties in Macau.

18. Deposits from customers

	As at 30 Jun 2017	As at 31 Dec 2016
Demand deposits and current accounts	35,756,231	35,194,614
Savings deposits	27,162,527	24,423,369
Time, call and notice deposits	95,011,171	94,505,338
	157,929,929	154,123,321

19. Certificates of deposit issued

	As at 30 Jun 2017	As at 31 Dec 2016
At fair value under fair value hedge (for hedging interest rate risk)	5,149,355	5,052,951
At amortised cost	1,054,152	1,507,025
	6,203,507	6,559,976

The amount that the Group would be contractually required to pay at maturity to the holders of these certificates of deposit is HK\$5 million lower (31 December 2016: HK\$20 million higher) than the above carrying amount.

20. Subordinated notes

	As at 30 Jun 2017	As at 31 Dec 2016
US\$225,000,000 Subordinated Fixed Rate Notes due 2020 (Note (a))	1,852,806	1,854,026
US\$200,000,000 Perpetual Subordinated Fixed Rate Notes (Note (b))	-	429,072
S\$225,000,000 Subordinated Fixed Rate Notes due 2022 (Note (c))	-	1,205,148
US\$225,000,000 Subordinated Fixed Rate Notes due 2024 (Note (d))	1,759,373	1,749,252
US\$250,000,000 Subordinated Fixed Rate Notes due 2026 (Note (e))	1,937,969	1,908,665
	5,550,148	7,146,163
At fair value under fair value hedge (for hedging interest rate risk)	5,550,148	6,717,091
At amortised cost	-	429,072
	5,550,148	7,146,163

Note:

(a) This represents US\$225,000,000 Subordinated Fixed Rate Notes qualifying as supplementary capital of the Bank issued on 11 February 2010 (the “Notes”), which are listed on the Singapore Stock Exchange Trading Limited (“SGX”). The Notes will mature on 11 February 2020. Interest at 6.625% p.a. is payable semi-annually. An interest rate swap contract to swap the fixed rate payment liability of the Notes to floating interest rate based on LIBOR has been entered into with an international bank.

(b) This represents US\$200,000,000 Perpetual Subordinated Fixed Rate Notes qualifying as upper supplementary capital of the Bank issued on 16 February 2007 (the “Notes”), which were listed on the SGX.

In 2010 and 2009, the Bank repurchased a portion of the Notes with a total notional principal of US\$75,000,000 and US\$70,000,000 respectively. The remaining portion had been fully repaid by the Bank on the optional redemption date of 17 February 2017.

(c) This represents S\$225,000,000 Subordinated Fixed Rate Notes qualifying as supplementary capital of the Bank issued on 8 February 2012 (the “Notes”), which were listed on the SGX. The Notes had a maturity date falling on 9 February 2022 and had been fully repaid by the Bank on the optional redemption date of 9 February 2017.

(d) This represents US\$225,000,000 Basel III compliant 10-year Subordinated Fixed Rate Notes qualifying as Tier 2 capital of the Bank (subject to the provisions of the Banking (Capital) Rules of Hong Kong) issued on 29 January 2014 (the “Notes”), which are listed on The Stock Exchange of Hong Kong Limited (“SEHK”). The Notes will mature on 29 January 2024 with an optional redemption date falling on 29 January 2019. Interest at 5.25% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the Notes are not redeemed, the interest rate will be reset and the Notes will bear interest at the then prevailing 5-year U.S. Treasury Rate plus 375 basis points. The Bank may, subject to receiving the prior approval of the HKMA, redeem the Notes in whole but not in part, at par either on the optional redemption date or for taxation reasons on interest payment date. An interest rate swap contract to swap the fixed rate payment liability of the Notes to floating interest rate based on LIBOR has been entered into with an international bank.

20. Subordinated notes (Continued)

Note: (Continued)

- (e) This represents US\$250,000,000 Basel III compliant 10-year Subordinated Fixed Rate Notes qualifying as Tier 2 capital of the Bank (subject to the provisions of the Banking (Capital) Rules of Hong Kong) issued on 30 November 2016 (the “Notes”), which are listed on the SEHK. The Notes will mature on 30 November 2026 with an optional redemption date falling on 30 November 2021. Interest at 4.25% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the Notes are not redeemed, the interest rate will be reset and the Notes will bear interest at the then prevailing 5-year U.S. Treasury Rate plus 255 basis points. The Bank may, subject to receiving the prior approval of the HKMA, redeem the Notes in whole but not in part, at par either on the optional redemption date or for taxation reasons on interest payment date. An interest rate swap contract to swap the fixed rate payment liability of the Notes to floating interest rate based on LIBOR has been entered into with an international bank.

The amount that the Group would be contractually required to pay at maturity to the holders of these subordinated notes is HK\$87 million lower (31 December 2016: HK\$85 million lower) than the above carrying amount.

21. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Deferred income tax assets	<u>72,551</u>	<u>68,286</u>
Deferred income tax liabilities	<u>(131,412)</u>	<u>(89,069)</u>
	As at 30 Jun 2017	As at 31 Dec 2016
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	158,855	155,358
Deferred income tax liabilities:		
- Deferred income tax liabilities to be settled after more than 12 months	<u>(217,716)</u>	<u>(176,141)</u>
	<u>(58,861)</u>	<u>(20,783)</u>

The gross movement on the deferred income tax account is as follows:

	Six months ended 30 Jun 2017	Year ended 31 Dec 2016
At 1 January	(20,783)	45,930
Acquisition of a subsidiary	-	(4,243)
Tax credited/(charged) to the income statement (Note 9)	957	(7,570)
Tax charged to equity	(41,571)	(49,192)
Exchange difference	<u>2,536</u>	<u>(5,708)</u>
At 30 June/ 31 December	<u>(58,861)</u>	<u>(20,783)</u>

21. Deferred income tax (Continued)

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Impairment allowances and provisions	Tax losses	Deferred expenses and others	Total
At 1 January 2016	106,568	297	47,442	154,307
(Charged)/ credited to the income statement	(991)	(297)	8,047	6,759
Exchange difference	(4,050)	-	(1,658)	(5,708)
At 31 December 2016 and 1 January 2017	101,527	-	53,831	155,358
(Charged)/ credit to the income statement	(4,821)	-	5,782	961
Exchange difference	1,579	-	957	2,536
At 30 June 2017	98,285	-	60,570	158,855

Deferred income tax liabilities:

	Provisions	Accelerated tax depreciation	Investment properties revaluation	Investment revaluation	Total
At 1 January 2016	9,736	74,272	-	24,369	108,377
Acquisition of a subsidiary	-	-	4,243	-	4,243
Charged/ (credit) to the income statement	293	14,360	(324)	-	14,329
Charged to equity	-	-	-	49,192	49,192
At 31 December 2016 and 1 January 2017	10,029	88,632	3,919	73,561	176,141
Charged to the income statement	-	4	-	-	4
Charged to equity	-	-	-	41,571	41,571
At 30 June 2017	10,029	88,636	3,919	115,132	217,716

The deferred income tax credited to equity during the period/ year is as follows:

	Six months ended 30 Jun 2017	Year ended 31 Dec 2016
Fair value reserves in shareholders' equity:		
- available-for-sale securities	41,571	49,192

22. Other reserves

	As at 30 Jun 2017	As at 31 Dec 2016
Consolidation reserve	8,827	8,827
Premises revaluation reserve	233,100	233,100
Investment revaluation reserve	600,324	432,312
Exchange reserve	(122,376)	(288,492)
General reserve	700,254	700,254
Reserve for share-based compensation	11,451	11,187
Retained earnings	<u>16,903,740</u>	<u>16,058,002</u>
	<u>18,335,320</u>	<u>17,155,190</u>
Proposed dividend included in retained earnings	<u>161,200</u>	<u>390,600</u>

The Bank is required to maintain minimum impairment provisions in excess of those required under HKFRS in the form of regulatory reserve. The regulatory reserve, which also covers Banco Comercial de Macau, S.A. (“BCM”) and Dah Sing Bank (China) Limited (“DSB China”), is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes. The regulatory reserve restricts the amount of reserves which can be distributed to shareholders. Movements in the regulatory reserve are made directly through equity reserve and in consultation with the HKMA.

As at 30 June 2017, the Bank has earmarked a regulatory reserve of HK\$1,335,930,000 (31 December 2016: HK\$1,398,280,000) first against its consolidated general reserve; and for any excess amount, the balance is earmarked against its consolidated retained earnings.

23. Contingent liabilities and commitments

(a) Capital commitments

Capital expenditure in respect of projects and acquisition of fixed assets at the end of the reporting period but not yet incurred is as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Expenditure contracted but not provided for	61,833	62,717

(b) Credit commitments

The contract and credit risk weighted amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	Contract amount	
	As at 30 Jun 2017	As at 31 Dec 2016
Direct credit substitutes	401,159	507,886
Transaction-related contingencies	436,396	468,367
Trade-related contingencies	587,685	593,956
Commitments that are unconditionally cancellable without prior notice	66,366,236	66,088,547
Other commitments with an original maturity of:		
- under 1 year	3,401,848	2,870,509
- 1 year and over	478,340	548,658
Forward forward deposits placed	25,647	21,029
	71,697,311	71,098,952
	Credit risk weighted amount	
	As at 30 Jun 2017	As at 31 Dec 2016
Contingent liabilities and commitments	1,298,039	1,289,997

23. Contingent liabilities and commitments (Continued)

(c) Assets pledged

Exchange Fund debts pledged with the HKMA to facilitate the Group's trading and market-making activities in Exchange Fund debts are as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Assets pledged with HKMA:		
Trading securities	5,167,708	6,036,748
Available-for-sale securities	642,504	1,148,005
	5,810,212	7,184,753
Associated liabilities:		
Trading liabilities	7,856,209	7,748,887

The carrying amounts of the non-government bonds pledged with unrelated financial institutions under repurchase agreements and the associated liabilities are as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Assets pledged under repurchase agreements:		
Available-for-sale securities	130,241	691,634
Associated liabilities:		
Deposits from banks	85,059	466,306
Other accounts and accruals	39,427	186,987
	124,486	653,293

23. Contingent liabilities and commitments (Continued)

(d) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Not later than 1 year	189,555	186,892
Later than 1 year and not later than 5 years	481,718	491,600
Later than 5 years	261,119	320,495
	<u>932,392</u>	<u>998,987</u>

Where a Group company is the lessor, the future minimum lease payments under non-cancellable building operating leases are as follows:

	As at 30 Jun 2017	As at 31 Dec 2016
Not later than 1 year	33,780	34,100
Later than 1 year and not later than 5 years	19,806	33,930
	<u>53,586</u>	<u>68,030</u>

24. Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date or, where applicable, the earliest callable date.

At 30 June 2017	Repayable on demand	Up to 1 month	3 months or less but over 1 month	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	1,590,731	11,398,958	-	-	-	-	-	12,989,689
Placements with banks maturing between one and twelve months	-	-	6,764,390	4,605,171	-	-	-	11,369,561
Trading securities	-	2,043,351	1,774,999	5,073,946	79,490	-	-	8,971,786
Financial assets designated at fair value through profit or loss	-	209,878	119,959	-	-	25,927	-	355,764
Derivative financial instruments	-	79,715	61,182	179,478	107,740	142,247	-	570,362
Advances and other accounts	7,495,036	16,718,439	12,428,507	14,597,103	34,939,075	35,955,800	2,150,953	124,284,913
Available-for-sale securities	-	2,885,613	2,431,901	2,376,710	18,790,062	7,846,538	540,714	34,871,538
Held-to-maturity securities	-	1,255,632	1,119,400	3,142,619	1,959,515	-	-	7,477,166
Investment in an associate	-	-	-	-	-	-	4,708,939	4,708,939
Investments in jointly controlled entities	-	-	-	-	-	-	84,610	84,610
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	58,446	58,446
Premises and other fixed assets	-	-	-	-	-	-	2,986,994	2,986,994
Investment properties	-	-	-	-	-	-	964,449	964,449
Current income tax assets	-	-	-	585	-	-	-	585
Deferred income tax assets	-	-	-	-	72,551	-	-	72,551
Total assets	9,085,767	34,591,586	24,700,338	29,975,612	55,948,433	43,970,512	12,306,795	210,579,043
Liabilities								
Deposits from banks	677,885	140,604	-	818,072	580,580	-	-	2,217,141
Derivative financial instruments	-	88,225	73,205	185,206	193,907	75,459	-	616,002
Trading liabilities	-	162,489	6,103,537	1,569,717	20,466	-	-	7,856,209
Deposits from customers	62,918,796	33,490,000	37,196,472	23,433,446	891,215	-	-	157,929,929
Certificates of deposit issued	-	109,996	311,013	3,676,234	2,106,264	-	-	6,203,507
Subordinated notes	-	-	-	-	5,550,148	-	-	5,550,148
Other accounts and accruals	46,148	1,235,002	558,937	717,957	58,884	-	2,665,013	5,281,941
Current income tax liabilities	-	-	-	257,434	-	-	-	257,434
Deferred income tax liabilities	-	-	-	-	131,412	-	-	131,412
Total liabilities	63,642,829	35,226,316	44,243,164	30,658,066	9,532,876	75,459	2,665,013	186,043,723
Net liquidity gap	(54,557,062)	(634,730)	(19,542,826)	(682,454)	46,415,557	43,895,053	9,641,782	24,535,320

24. Maturity analysis (Continued)

At 31 December 2016	Repayable on demand	Up to 1 month	3 months or less but over 1 month	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	1,975,387	13,082,526	-	-	-	-	-	15,057,913
Placements with banks maturing between one and twelve months	-	-	7,463,765	967,089	-	-	-	8,430,854
Trading securities	-	2,602,110	2,706,114	3,469,166	94,454	-	-	8,871,844
Financial assets designated at fair value through profit or loss	-	-	-	-	-	21,137	-	21,137
Derivative financial instruments	-	62,761	153,035	604,064	119,772	237,690	-	1,177,322
Advances and other accounts	8,246,624	14,898,539	11,842,896	14,926,873	32,248,055	36,375,334	1,547,816	120,086,137
Available-for-sale securities	-	2,057,565	3,052,212	3,006,572	13,309,842	10,841,757	471,213	32,739,161
Held-to-maturity securities	-	1,676,029	2,908,307	3,179,324	2,460,180	-	-	10,223,840
Investment in an associate	-	-	-	-	-	-	4,253,393	4,253,393
Investments in jointly controlled entities	-	-	-	-	-	-	75,412	75,412
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	58,640	58,640
Premises and other fixed assets	-	-	-	-	-	-	3,005,107	3,005,107
Investment properties	-	-	-	-	-	-	964,449	964,449
Current income tax assets	-	-	-	1,605	-	-	-	1,605
Deferred income tax assets	-	-	-	-	68,286	-	-	68,286
Total assets	10,222,011	34,379,530	28,126,329	26,154,693	48,300,589	47,475,918	11,187,720	205,846,790
Liabilities								
Deposits from banks	41,180	124,926	730,360	33,358	1,388,379	-	-	2,318,203
Derivative financial instruments	-	90,292	327,153	646,769	189,167	90,037	-	1,343,418
Trading liabilities	-	550,384	4,732,783	2,415,765	49,955	-	-	7,748,887
Deposits from customers	59,583,891	29,489,959	40,407,315	23,355,524	1,286,632	-	-	154,123,321
Certificates of deposit issued	-	1,245,281	2,247,083	1,809,467	1,258,145	-	-	6,559,976
Subordinated notes	-	-	1,634,220	-	5,511,943	-	-	7,146,163
Other accounts and accruals	50,394	1,226,362	701,811	753,027	59,209	2,353	210,242	3,003,398
Current income tax liabilities	-	-	-	159,165	-	-	-	159,165
Deferred income tax liabilities	-	-	-	-	89,069	-	-	89,069
Total liabilities	59,675,465	32,727,204	50,780,725	29,173,075	9,832,499	92,390	210,242	182,491,600
Net liquidity gap	(49,453,454)	1,652,326	(22,654,396)	(3,018,382)	38,468,090	47,383,528	10,977,478	23,355,190

25. Fair value hierarchy

The Group measures fair values using the following hierarchy that reflects the significance of the observable and unobservable inputs used in the fair value measurement:

Level	Descriptions
1	Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and derivatives that are listed on exchanges.
2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter derivative contracts.
3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity and debt securities with significant unobservable components.

Assets and liabilities measured at fair value:

At 30 Jun 2017	Level 1	Level 2	Level 3	Total
Descriptions				
Financial assets at fair value through profit or loss				
Held for trading				
Debt securities	-	8,971,786	-	8,971,786
Designated at fair value through profit or loss				
Debt securities	-	355,764	-	355,764
Derivative financial instruments				
Held for trading	-	331,390	-	331,390
Held for hedging	-	238,972	-	238,972
Available-for-sale financial assets				
Debt securities	-	34,330,823	4,753	34,335,576
Equity securities	295,349	165,164	75,449	535,962
Total assets measured at fair value	295,349	44,393,899	80,202	44,769,450
Financial liabilities at fair value through profit or loss				
Held for trading	-	7,856,209	-	7,856,209
Derivative financial instruments				
Held for trading	-	366,023	-	366,023
Held for hedging	-	249,979	-	249,979
Total liabilities measured at fair value	-	8,472,211	-	8,472,211

Financial assets classified as Level 3 assets represent investments in unlisted equity securities and debentures. They are stated at cost which is considered to be a reasonable approximation of fair value.

For the six months ended 30 June 2017 and the year ended 31 December 2016, there were no transfers of financial assets and liabilities into or out of the Level 3 fair value hierarchy. The changes in carrying value represent the revaluation gains/ losses.

25. Fair value hierarchy (Continued)

Assets and liabilities measured at fair value: (Continued)

At 31 Dec 2016	Level 1	Level 2	Level 3	Total
Descriptions				
Financial assets at fair value through profit or loss				
Held for trading				
Debt securities	-	8,871,844	-	8,871,844
Designated at fair value through profit or loss				
Debt securities				
	-	21,137	-	21,137
Derivative financial instruments				
Held for trading				
	24	831,107	-	831,131
Held for hedging				
	-	346,191	-	346,191
Available-for-sale financial assets				
Debt securities				
	-	32,267,946	4,753	32,272,699
Equity securities				
	254,705	136,704	75,053	466,462
Total assets measured at fair value	<u>254,729</u>	<u>42,474,929</u>	<u>79,806</u>	<u>42,809,464</u>
Financial liabilities at fair value through profit or loss				
Held for trading				
	-	7,748,887	-	7,748,887
Derivative financial instruments				
Held for trading				
	-	875,997	-	875,997
Held for hedging				
	-	467,421	-	467,421
Total liabilities measured at fair value	<u>-</u>	<u>9,092,305</u>	<u>-</u>	<u>9,092,305</u>

26. Operating segment reporting

Segment reporting by the Group is prepared in accordance with HKFRS 8 “Operating Segments”. Information reported to the chief operating decision maker, including the Chief Executive and other Executive Committee members, for the purposes of resource allocation and performance assessment, is determined on the basis of personal banking, commercial banking, treasury and overseas banking business. Operating performances are analysed by business activities for local banking business, and on business entity basis for overseas banking business.

Considering the customer groups, products and services of local businesses, the economic environment and regulations, the Group splits the operating segments of the Group into the following reportable segments:

- Personal banking business includes the acceptance of deposits from individual customers and the extension of residential mortgage lending, personal loans, overdraft, vehicle financing and credit card services, and the provision of insurance sales and investment services.
- Commercial banking business includes the acceptance of deposits from and the advance of loans and working capital finance to commercial, industrial and institutional customers, and the provision of trade financing.
- Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, interest rate risk management, management of investment in securities and the overall funding of the Group.
- Overseas banking businesses include personal banking, commercial banking business activities provided by overseas subsidiaries in Macau and China, and the Group’s interest in a commercial bank in China.
- Others include results of operations not directly identified under other reportable segments, corporate investments and debt funding (including subordinated notes).

For the purpose of segment reporting, revenue derived from customers, products and services directly identifiable with individual segments are reported directly under respective segments, while revenue and funding cost arising from inter-segment funding operation and funding resources are allocated to segments by way of transfer pricing mechanism with reference to market interest rates. Transactions within segments are priced based on similar terms offered to or transacted with external parties. Inter-segment income or expenses are eliminated on consolidation.

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions’ costs are allocated to various segments and products based on effort and time spent as well as segments’ operating income depending on the nature of costs incurred. Costs related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped under Others as unallocated corporate expenses.

26. Operating segment reporting (Continued)

For the six months ended 30 June 2017

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter-segment	Total
Net interest income / (expenses)	797,846	574,330	273,813	266,040	(31,976)	-	1,880,053
Non-interest income / (expenses)	347,135	91,187	(4,508)	63,705	28,814	-	526,333
Total operating income / (loss)	1,144,981	665,517	269,305	329,745	(3,162)	-	2,406,386
Operating expenses	(701,818)	(219,521)	(77,179)	(235,984)	3,483	-	(1,231,019)
Operating profit before impairment (losses)/ written back	443,163	445,996	192,126	93,761	321	-	1,175,367
Loan impairment (losses)/ written back	(125,581)	(46,118)	-	4,424	-	-	(167,275)
Operating profit after impairment (losses)/ written back	317,582	399,878	192,126	98,185	321	-	1,008,092
Net loss on disposal of other fixed assets	(33)	(7)	-	(56)	(10)	-	(106)
Net gain on disposal of available-for-sale securities	-	-	23,365	-	-	-	23,365
Share of results of an associate	-	-	-	373,038	-	-	373,038
Share of results of jointly controlled entities	-	-	-	-	9,198	-	9,198
Profit before taxation	317,549	399,871	215,491	471,167	9,509	-	1,413,587
Taxation expenses	(52,399)	(65,978)	(35,556)	(14,423)	(8,893)	-	(177,249)
Profit after taxation	265,150	333,893	179,935	456,744	616	-	1,236,338
For the six months ended 30 June 2017							
Depreciation and amortisation	41,503	11,880	5,077	18,848	11,907	-	89,215
As at 30 June 2017							
Segment assets	46,235,172	57,367,412	70,810,239	35,268,047	5,406,561	(4,508,388)	210,579,043
Segment liabilities	89,019,368	36,341,789	17,396,114	25,984,969	21,809,871	(4,508,388)	186,043,723

26. Operating segment reporting (Continued)

For the six months ended 30 June 2016

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter-segment	Total
Net interest income / (expenses)	741,204	626,475	191,609	244,084	(33,857)	-	1,769,515
Non-interest income / (expenses)	288,161	93,834	78,494	53,608	8,127	(50)	522,174
Total operating income / (loss)	1,029,365	720,309	270,103	297,692	(25,730)	(50)	2,291,689
Operating expenses	(635,617)	(197,093)	(69,207)	(220,038)	191	50	(1,121,714)
Operating profit/ (loss) before impairment (losses)/ written back	393,748	523,216	200,896	77,654	(25,539)	-	1,169,975
Loan impairment (losses)/ written back	(136,616)	(230,583)	-	22,720	-	-	(344,479)
Operating profit/ (loss) after impairment (losses)/ written back	257,132	292,633	200,896	100,374	(25,539)	-	825,496
Net loss on disposal of other fixed assets	(56)	(4)	-	(9)	(3)	-	(72)
Net gain on disposal of available-for-sale securities	-	-	13,219	-	30,843	-	44,062
Share of results of an associate	-	-	-	352,936	-	-	352,936
Share of results of jointly controlled entities	-	-	-	-	7,599	-	7,599
Profit before taxation	257,076	292,629	214,115	453,301	12,900	-	1,230,021
Taxation (expenses)/ credit	(42,417)	(48,284)	(35,329)	(19,546)	410	-	(145,166)
Profit after taxation	214,659	244,345	178,786	433,755	13,310	-	1,084,855
For the six months ended 30 June 2016							
Depreciation and amortisation	31,465	6,654	3,070	17,919	21,893	-	81,001
As at 31 December 2016							
Segment assets	46,561,760	54,664,156	69,352,142	35,258,558	4,538,109	(4,527,935)	205,846,790
Segment liabilities	86,449,648	36,320,735	18,848,415	26,533,708	18,867,029	(4,527,935)	182,491,600

26. Operating segment reporting (Continued)

Revenues from external customers were contributed from banking subsidiaries in Hong Kong, Macau and People's Republic of China, with major products and services including deposit taking, extension of credit, asset-based finance, securities investment services offered to customers.

The following tables provide information by geographical area, which was determined with reference to the domicile of the legal entities within the Group with business dealing and relationship with, and services to external customers.

	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the six months ended 30 June 2017				
Operating income	2,187,006	219,380	-	2,406,386
Profit before taxation	1,293,898	119,689	-	1,413,587
As at 30 June 2017				
Total assets	193,924,311	19,518,545	(2,863,813)	210,579,043
Total liabilities	171,993,813	16,913,723	(2,863,813)	186,043,723
Intangible assets and goodwill	318,667	551,469	-	870,136
Contingent liabilities and commitments	<u>76,640,210</u>	<u>2,100,996</u>	<u>(109,217)</u>	<u>78,631,989</u>
	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the six months ended 30 June 2016				
Operating income	2,088,000	203,689	-	2,291,689
Profit before taxation	1,120,316	109,705	-	1,230,021
As at 31 December 2016				
Total assets	188,564,732	19,602,001	(2,319,943)	205,846,790
Total liabilities	167,826,139	16,985,404	(2,319,943)	182,491,600
Intangible assets and goodwill	318,667	551,663	-	870,330
Contingent liabilities and commitments	<u>78,461,648</u>	<u>1,684,413</u>	<u>(109,018)</u>	<u>80,037,043</u>

27. Currency concentrations

The following sets out the net foreign exchange position in USD and other individual currency that constitutes more than 10% of the total net position in all foreign currencies as at 30 June 2017 and the corresponding comparative balances.

The Group did not have any structural foreign exchange position as at 30 June 2017 and 31 December 2016. The net option position is calculated in the basis of the delta-weighted position of all foreign currency option contracts.

	At 30 June 2017				
	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions					
Spot assets	63,774	13,865	9,286	4,293	91,218
Spot liabilities	(29,727)	(13,585)	(10,637)	(6,766)	(60,715)
Forward purchases	28,936	13,675	-	6,928	49,539
Forward sales	(61,718)	(13,945)	-	(4,460)	(80,123)
Net options position	8	-	-	(8)	-
Net long/ (short) position	<u>1,273</u>	<u>10</u>	<u>(1,351)</u>	<u>(13)</u>	<u>(81)</u>
	At 31 December 2016				
	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions					
Spot assets	64,651	13,702	9,347	4,923	92,623
Spot liabilities	(33,722)	(13,522)	(10,993)	(8,437)	(66,674)
Forward purchases	25,926	12,881	-	5,379	44,186
Forward sales	(55,094)	(13,047)	-	(1,865)	(70,006)
Net options position	-	-	-	(6)	(6)
Net long/ (short) position	<u>1,761</u>	<u>14</u>	<u>(1,646)</u>	<u>(6)</u>	<u>123</u>

28. Additional analysis on claims and exposures

- (a) Gross advances to customers by industry sector classified according to the usage of loans and analysed by percentage covered by collateral

	As at 30 Jun 2017		As at 31 Dec 2016	
	Outstanding balance	% of gross advances covered by collateral	Outstanding balance	% of gross advances covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	3,520,460	76.0	2,317,648	82.0
- Property investment	16,059,493	97.9	15,095,225	99.3
- Financial concerns	3,722,820	7.1	4,259,982	26.6
- Stockbrokers	1,664,723	62.8	1,804,854	44.9
- Wholesale and retail trade	5,656,517	90.2	4,543,621	88.5
- Manufacturing	2,544,880	87.9	2,435,207	94.0
- Transport and transport equipment	4,169,103	75.7	3,508,563	78.8
- Recreational activities	68,256	100.0	78,395	97.4
- Information technology	76,408	87.1	74,186	87.7
- Others	4,236,173	80.6	5,180,298	82.2
	41,718,833	80.9	39,297,979	82.2
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	719,498	100.0	756,457	100.0
- Loans for the purchase of other residential properties	22,522,191	99.9	22,230,051	99.9
- Credit card advances	3,742,045	-	4,377,622	-
- Others	11,441,963	45.8	11,092,297	43.9
	38,425,697	74.0	38,456,427	72.4
Loans for use in Hong Kong	80,144,530	77.6	77,754,406	77.4
Trade finance (Note (1))	8,283,072	66.0	7,723,386	66.2
Loans for use outside Hong Kong (Note (2))	29,093,119	69.2	28,180,073	74.0
	117,520,721	74.7	113,657,865	75.8

Note:

- (1) Trade finance shown above represents loans covering finance of imports to Hong Kong, exports and re-exports from Hong Kong and merchandising trade classified with reference to the relevant guidelines issued by the HKMA.

Trade finance loans not involving Hong Kong (including trade finance extended by the overseas subsidiary banks of the Bank) totalling HK\$366,489,000 (31 December 2016: HK\$297,335,000) are classified under Loans for use outside Hong Kong.

- (2) Loans for use outside Hong Kong include loans extended to customers located in Hong Kong with the finance used outside Hong Kong.

28. Additional analysis on claims and exposures (Continued)

- (a) Gross advances to customers by industry sector classified according to the usage of loans and analysed by percentage covered by collateral (Continued)

For each industry sector reported above with loan balance constituting 10% or more of the total balance of advances to customers, the attributable amount of impaired loans, overdue loans, and individually and collectively assessed loan impairment allowances are as follows:

	As at 30 Jun 2017				
	Outstanding balance	Impaired loans	Gross advances overdue for over 3 months	Individually assessed impairment allowances	Collectively assessed impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property investment	16,059,493	131,484	101,499	14,765	59,071
Individuals					
- Loans for the purchase of other residential properties	22,522,191	7,362	14,995	-	5,157
Loans for use outside Hong Kong	<u>29,093,119</u>	<u>237,065</u>	<u>295,871</u>	<u>90,295</u>	<u>138,694</u>
	At 31 Dec 2016				
	Outstanding balance	Impaired loans	Gross advances overdue for over 3 months	Individually assessed impairment allowances	Collectively assessed impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property investment	15,095,225	92,594	89,700	10,276	51,607
Individuals					
- Loans for the purchase of other residential properties	22,230,051	10,670	24,893	-	4,552
Loans for use outside Hong Kong	<u>28,180,073</u>	<u>364,972</u>	<u>380,615</u>	<u>189,010</u>	<u>145,416</u>

28. Additional analysis on claims and exposures (Continued)

(b) Mainland activities exposures

The analysis of Mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland Activities, which includes the Mainland activities exposures extended by the Bank and its Mainland subsidiary bank only.

As at 30 June 2017	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1. Central government, central government-owned entities and their subsidiaries and joint ventures (“JV”s)	6,309,181	205,340	6,514,521
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,117,634	254,789	1,372,423
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	12,288,726	3,029,274	15,318,000
4. Other entities of central government not reported in item 1 above	1,289,882	45,242	1,335,124
5. Other entities of local governments not reported in item 2 above	858,958	-	858,958
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	8,536,373	521,480	9,057,853
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	676,473	2,347	678,820
	<u>31,077,227</u>	<u>4,058,472</u>	<u>35,135,699</u>
Total assets of the Bank and its Mainland subsidiary bank after provision	<u>193,092,094</u>		
On-balance sheet exposures as percentage of total assets	<u>16.09%</u>		

Note:

The balances of exposures reported above include gross advances and other balances of claims on the customers.

28. Additional analysis on claims and exposures (Continued)

(b) Mainland activities exposures (Continued)

As at 31 December 2016	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1. Central government, central government-owned entities and their subsidiaries and JVs	6,982,813	335,952	7,318,765
2. Local governments, local government-owned entities and their subsidiaries and JVs	2,067,880	639,122	2,707,002
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	8,442,337	1,717,472	10,159,809
4. Other entities of central government not reported in item 1 above	1,579,550	153,473	1,733,023
5. Other entities of local governments not reported in item 2 above	569,977	11,774	581,751
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	8,070,905	542,543	8,613,448
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	579,554	-	579,554
	<u>28,293,016</u>	<u>3,400,336</u>	<u>31,693,352</u>
Total assets of the Bank and its Mainland subsidiary bank after provision	<u>189,622,746</u>		
On-balance sheet exposures as percentage of total assets	<u>14.92%</u>		

28. Additional analysis on claims and exposures (Continued)

(c) Analysis of gross advances to customers and overdue loans by geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party located in an area which is different from that of the counterparty.

The following table analyses gross advances to customers, individually impaired advances to customers, overdue advances to customers, and individually and collectively assessed impairment allowances by geographical area.

As at 30 June 2017

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	94,498,745	829,825	813,696	208,241	324,257
China	8,760,009	40,782	94,160	17,218	69,816
Macau	12,724,565	65,111	69,847	15,562	45,372
Others	1,537,402	11	11	9	5,212
	117,520,721	935,729	977,714	241,030	444,657

As at 31 December 2016

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	90,514,829	1,044,157	892,925	391,466	294,687
China	7,573,907	72,815	127,256	30,499	67,881
Macau	12,796,849	55,200	60,641	12,552	48,779
Others	2,772,280	2,037	6,315	693	9,198
	113,657,865	1,174,209	1,087,137	435,210	420,545

28. Additional analysis on claims and exposures (Continued)

(d) International claims

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

At 30 June 2017 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	4,794	18,636	6,542	115,542	145,514
- of which: Hong Kong	<u>3,817</u>	<u>16,245</u>	<u>6,470</u>	<u>101,162</u>	<u>127,694</u>
Developing Asia and Pacific	27,405	1,862	1,350	11,379	41,996
- of which: Mainland China	<u>23,695</u>	<u>1,785</u>	<u>949</u>	<u>10,048</u>	<u>36,477</u>

At 31 December 2016 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non-financial private sector	
Offshore centres	1,867	17,682	6,684	113,351	139,584
- of which: Hong Kong	<u>1,430</u>	<u>15,171</u>	<u>6,684</u>	<u>97,608</u>	<u>120,893</u>
Developing Asia and Pacific	24,301	1,730	1,149	10,070	37,250
- of which: Mainland China	<u>20,282</u>	<u>1,730</u>	<u>1,133</u>	<u>8,561</u>	<u>31,706</u>

(e) Credit commitments and contingent liabilities analysed by percentage covered by collateral

	As at 30 Jun 2017		As at 31 Dec 2016	
	Contract amount	% covered by collateral	Contract amount	% covered by collateral
Financial guarantees and other credit related contingent liabilities	1,425,240	32.7	1,570,209	29.3
Loan commitments and other credit related commitments	<u>70,272,071</u>	4.6	<u>69,528,743</u>	3.6
	<u>71,697,311</u>	5.1	<u>71,098,952</u>	4.2

29. Capital adequacy ratio

	As at 30 Jun 2017	As at 31 Dec 2016
Capital adequacy ratio		
- Common Equity Tier 1	13.1%	12.7%
- Tier 1	13.1%	12.7%
- Total	<u>17.8%</u>	<u>18.3%</u>

The capital adequacy ratio as at 30 June 2017 and 31 December 2016 represents the consolidated position of the Bank (covering BCM and DSB China) computed on Basel III basis in accordance with the Banking (Capital) Rules. This capital adequacy ratio takes into account market risk and operational risk.

The Bank as a locally incorporated bank in Hong Kong is subject to the minimum capital adequacy ratio requirement under the Hong Kong Banking Ordinance. BCM is subject to Macau banking regulations and DSB China is subject to China banking regulations.

For the purposes of compliance with the Banking (Disclosure) Rules, additional information relating to the Group's regulatory capital and other related disclosures is published in the Bank's website at www.dahsing.com and is accessible at the following direct link:
http://www.dahsing.com/html/en/about_us/regulatory_disclosures.html

30. Capital buffers

	As at 30 Jun 2017	As at 31 Dec 2016
Capital conservation buffer ratio	1.250%	0.625%
Countercyclical capital buffer ratio	<u>0.937%</u>	<u>0.462%</u>
	<u>2.187%</u>	<u>1.087%</u>

With effect from 1 January 2016, the above capital buffers are phased-in and applicable to the Bank. The countercyclical capital buffer ratio is computed on the same consolidated basis as the capital adequacy ratio.

For the purposes of compliance with the Banking (Disclosure) Rules, additional information relating to the Group's countercyclical capital buffer ratio is published in the Bank's website at www.dahsing.com and is accessible at the following direct link:
http://www.dahsing.com/html/en/about_us/regulatory_disclosures.html

31. Leverage ratio

	As at 30 Jun 2017	As at 31 Dec 2016
Leverage ratio	8.4%	8.2%

The disclosure on leverage ratio is required under section 24A(6) of the Banking (Disclosure) Rules. The above ratios represent the consolidated position of the Bank and are computed on the same consolidated basis as the capital adequacy ratio.

For the purposes of compliance with the Banking (Disclosure) Rules, additional information relating to the Group's leverage ratio is published in the Bank's website at www.dahsing.com and is accessible at the following direct link:

http://www.dahsing.com/html/en/about_us/regulatory_disclosures.html

32. Liquidity maintenance ratio

	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016	Year ended 31 Dec 2016
Liquidity maintenance ratio	43.8%	40.8%	41.9%

Liquidity risk is the risk that the Group is unable to fund increases in assets or meet its payment obligations associated with its financial liabilities when they fall due without incurring unacceptable loss.

The Group manages its liquidity on a prudent basis with the objective to comply with the statutory standard and to ensure that there is an adequate liquidity and funding capacity to meet normal business operations and to withstand a prolonged period of liquidity stress of not less than a month. The Group has adopted the Liquidity Maintenance Ratio ("LMR") as a regulatory standard for the supervision of the HKMA on the Group's liquidity position. During the period, the Group had maintained a sufficiently high LMR well above the statutory minimum of 25%.

The Group continues to adopt the liquidity risk management process as set out in Note 3.4 of the Group's annual audited financial statements for the year ended 31 December 2016.

The LMR is calculated as the simple average of each calendar month's average consolidated liquidity maintenance ratio of the Bank (covering BCM and DSB China) for the six/ twelve months of the financial year. The LMR is computed in accordance with the Banking (Liquidity) Rules.

The Bank as a locally incorporated bank in Hong Kong is subject to the liquidity requirement under the Hong Kong Banking Ordinance. BCM is subject to Macau banking regulations and DSB China is subject to China banking regulations.

FINANCIAL RATIOS

	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016
Net interest income/ operating income	78.1%	77.2%
Cost to income ratio	51.2%	48.9%
Return on average total assets (annualised)	1.2%	1.1%
Return on average shareholders' funds (annualised)	10.3%	9.6%
Net interest margin	1.94%	1.94%

	As at 30 Jun 2017	As at 31 Dec 2016
Loan to deposit ratio	71.6%	70.7%

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

The first half of 2017 generally improved over the same period in 2016. Hong Kong GDP expanded by 3.8% in real terms year-on-year in the second quarter, following the very strong first quarter growth at 4.3%, which was the strongest growth for some time. First half GDP growth in Hong Kong was well above trend, driven by growth in exports and private sector consumption. Hong Kong again reported effectively full employment over the period. The local stock market rallied strongly in the first half of the year. The Mainland economy also continued to perform better than expectations in the first half of the year, with growth of around 6.9%. The Federal Reserve, as expected, raised interest rates twice in the first half of the year, although generally speaking interest rates remained quite stable, and in Hong Kong even trended down somewhat.

The stronger economic performance in the first half of the year was beneficial to our business. Operating profit after impairment losses increased by 22.1% to HK\$1,008 million. The Group performed strongly in the first half, with profit for the period increasing by 14.0% to HK\$1,236 million, driven by both an improvement in operating income, and substantially lower loan impairment charges.

BUSINESS AND FINANCIAL REVIEW

With a more favourable economic backdrop, the performance of the Group improved in most key areas. Loan growth was still somewhat subdued at 3.4% in the first half of the year. With a stable NIM at 1.94%, same as the first half of 2016, and higher average interest earning assets, our overall net interest income grew by 6.2% to HK\$1,880 million. Net fee and commission income grew strongly by 14.7% to HK\$458 million due to a combination of stronger wealth management related revenues, a significant improvement in the local stockbroking business, and improvement in fees related to our commercial banking business during the period. Operating expense growth accelerated in the first half of the year as we continued to invest in the business. However, the cost to income ratio remained relatively stable at 51.2%.

Our overseas banking business reported a modestly improved performance as a whole. We saw stronger loan growth in our Mainland business than our Macau business and a modest improvement in the contribution from Bank of Chongqing, although in relative terms, this associate contributed a lower percentage of our overall net profit in the first half of the year.

Credit quality continued to improve, with a notable reduction in loan impairment losses, which dropped by more than 50% to HK\$167 million for the period. The improvement in credit quality was particularly notable in our commercial banking business.

Our return on assets of 1.2% and ROE of 10.3% were higher than in the same period in 2016, due to the higher level of profit reported.

As at 30 June 2017, the Bank's consolidated Common Equity Tier 1 ratio strengthened to 13.1%, compared with 12.7% at the end of 2016, driven by the strong profitability during the period coupled with relatively slow loan asset growth, as no additional capital raising was undertaken during the period. Total consolidated capital adequacy ratio stood at 17.8%, slightly lower than 18.3% at the end of last year despite the growth in Common Equity Tier 1 mentioned above, mainly due to the redemption of two subordinated debts in early 2017, and the phase out of a portion of the non-Basel III compliant subordinated debts as eligible Tier 2 capital base under the transitional arrangement.

PROSPECTS

Conditions in the first half of 2017 have generally improved compared with the same period last year, both locally in Hong Kong, and in the Mainland. Global economic recovery remains ongoing, with somewhat stronger conditions both in the US and Europe. It is expected that the second half of the year will be broadly stable. Whilst in general conditions are reasonably robust, it is notable that growth in some of our key lending areas in Hong Kong, such as property lending, remains under some pressure, and that whilst conditions continue to be supportive at present, there are a number of risks, such as a possible slow-down in the housing market, and a more rapid increase in interest rates than is currently expected, that we will need to face during the second half of the year. Therefore, the current relatively slow pace of volume growth is expected to continue in the second half. Our capital position remains healthy, and at the current relatively slow pace of volume growth, we are capital accretive.

Credit quality at present remains both benign and stable, and with a supportive economic backdrop, we currently do not expect any significant upturn in problem loans. Liquidity in the local market remains strong. However, with overall system-wide loan growth picking up, and a significant and prolonged gap between HK dollar and US dollar interest rates, there is a risk that HK dollar rates may rise more quickly than expected, putting some pressure on funding costs. Meanwhile, conditions for fee and commission income, particularly those related to wealth management, remain strong.

Dah Sing Financial Holdings Limited, our ultimate holding company, completed the disposal of its Hong Kong life insurance business in the first half of the year, and it expect to complete the sale of its Macau life insurance business in the second half. We remain committed to distribution of life assurance products via a distribution agreement with the purchaser of the life business, and look forward to growing this stream of business in future.

Therefore, we are reasonably optimistic about prospects for the second half of the year. Whilst volume growth may remain relatively subdued, overall business conditions are generally good, and non-performing loans continue to remain under control.

PUBLICATION OF INTERIM FINANCIAL DISCLOSURES ON THE GROUP'S WEBSITE

This interim financial disclosure statement of the Group will be published on the Bank's website (www.dahsing.com) in due course.

INTERIM DISCLOSURE STATEMENT AND STATEMENT OF COMPLIANCE

This interim financial disclosure statement for the six months ended 30 June 2017 is the Interim Disclosure Statement of the Bank prepared in accordance with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority. The Bank has fully complied with such disclosure requirements.

By Order of the Board
Doris W. N. Wong
Company Secretary

Hong Kong, Tuesday, 22 August 2017