

Dah Sing Bank, Limited



ANNOUNCEMENT OF 2016 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 2016.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June

HK\$'000	Note	2016	2015	Variance %
Interest income		2,552,155	2,516,398	
Interest expense		(782,640)	(922,576)	
Net interest income	3	1,769,515	1,593,822	11.0
Fee and commission income		508,037	629,824	
Fee and commission expense		(109,172)	(108,259)	
Net fee and commission income	4	398,865	521,565	(23.5)
Net trading income	5	90,646	124,969	
Other operating income	6	32,663	29,476	
Operating income		2,291,689	2,269,832	1.0
Operating expenses	7	(1,121,714)	(1,093,337)	2.6
Operating profit before impairment losses		1,169,975	1,176,495	(0.6)
Loan impairment losses	8	(344,479)	(193,164)	78.3
Operating profit after impairment losses		825,496	983,331	(16.1)
Net loss on disposal of other fixed assets		(72)	(348)	
Net gain on disposal of available-for-sale securities		44,062	5,779	
Provision for loss on dilution of interest in an associate		-	(32,000)	
Share of results of an associate		352,936	388,861	
Share of results of jointly controlled entities		7,599	10,117	
Profit before taxation		1,230,021	1,355,740	(9.3)
Taxation	9	(145,166)	(170,095)	
Profit for the period		1,084,855	1,185,645	(8.5)
Dividend				
Interim dividend		142,600	111,600	

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

HK\$'000	2016	2015
Profit for the period	<u>1,084,855</u>	<u>1,185,645</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	166,975	134,658
Fair value gain realised and transferred to income statement upon:		
- Disposal of available-for-sale securities	(44,062)	(5,779)
Deferred income tax on movements in investment revaluation reserve	<u>(17,812)</u>	<u>(17,964)</u>
	<u>105,101</u>	<u>110,915</u>
Exchange differences arising on translation of the financial statements of foreign entities	<u>(145,433)</u>	<u>4,574</u>
Other comprehensive (loss)/ income for the period, net of tax	<u>(40,332)</u>	<u>115,489</u>
Total comprehensive income for the period, net of tax	<u>1,044,523</u>	<u>1,301,134</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$'000	Note	As at 30 Jun 2016	As at 31 Dec 2015
ASSETS			
Cash and balances with banks		10,772,316	17,505,032
Placements with banks maturing between one and twelve months		8,183,597	7,497,860
Trading securities	10	9,080,484	8,572,394
Financial assets designated at fair value through profit or loss	10	14,264	16,498
Derivative financial instruments	11	928,935	1,079,328
Advances and other accounts	12	119,860,425	118,415,448
Available-for-sale securities	14	27,400,416	24,187,845
Held-to-maturity securities	15	11,093,675	10,476,296
Investment in an associate		4,344,042	4,099,217
Investments in jointly controlled entities		78,718	71,119
Goodwill		811,690	811,690
Intangible assets		59,222	59,805
Premises and other fixed assets	16	2,874,454	2,871,587
Investment properties	17	959,755	930,257
Deferred income tax assets	22	78,499	83,473
Total assets		196,540,492	196,677,849
LIABILITIES			
Deposits from banks		1,801,444	1,550,911
Derivative financial instruments	11	1,546,673	1,458,432
Trading liabilities		3,824,813	6,270,630
Deposits from customers	18	151,818,421	151,092,390
Certificates of deposit issued	19	6,262,620	6,231,837
Subordinated notes	20	5,435,197	5,319,894
Other accounts and accruals	21	2,939,986	2,608,112
Current income tax liabilities		268,762	201,204
Deferred income tax liabilities	22	68,789	37,543
Total liabilities		173,966,705	174,770,953
EQUITY			
Share capital		6,200,000	6,200,000
Other reserves (including retained earnings)	23	16,373,787	15,706,896
Total equity		22,573,787	21,906,896
Total equity and liabilities		196,540,492	196,677,849

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

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
Total comprehensive income for the period	-	(40,332)	1,084,855	1,044,523
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
			Six months ended 30 June	
			2016	2015
Proposed interim dividend included in retained earnings			142,600	111,600

HK\$'000	Attributable to the Shareholders of the Bank			Total equity
	Share capital	Other reserves	Retained earnings	
Balance at 1 January 2015	6,200,000	1,362,855	12,500,075	20,062,930
Total comprehensive income for the period	-	115,489	1,185,645	1,301,134
Provision for equity-settled share-based compensation	-	1,009	-	1,009
Balance at 30 June 2015	6,200,000	1,479,353	13,685,720	21,365,073

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

HK\$'000	2016	2015
Cash flows from operating activities		
Cash absorbed by operations	(1,995,738)	(4,503,924)
Interest paid on certificates of deposit issued	(35,228)	(45,831)
Hong Kong profits tax paid	(61,230)	(51,834)
Overseas tax paid	(1)	-
	<u>(2,092,197)</u>	<u>(4,601,589)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchase of premises, investment properties and other fixed assets	(117,165)	(45,653)
Proceeds from disposal of other fixed assets	5	68
	<u>(117,160)</u>	<u>(45,585)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Interest paid on subordinated notes and debt securities issued	(137,623)	(139,836)
Dividend paid on ordinary shares	(378,200)	-
	<u>(515,823)</u>	<u>(139,836)</u>
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(2,725,180)	(4,787,010)
Cash and cash equivalents at beginning of the period	17,149,454	16,080,566
Effect of foreign exchange rate changes	(35,274)	(23,853)
	<u>14,389,000</u>	<u>11,269,703</u>
Cash and cash equivalents at end of the period		
	14,389,000	11,269,703
 Analysis of the balance of cash and cash equivalents:		
Cash and balances with banks	1,433,004	1,476,299
Money at call and short notice with an original maturity within three months	7,271,420	8,833,226
Trading securities	2,619,618	320,479
Placements with banks with an original maturity within three months	3,064,958	639,699
	<u>14,389,000</u>	<u>11,269,703</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, Dah Sing Financial 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 2016 interim consolidated financial statements does not constitute statutory financial statements.

Certain financial information in the 2016 interim consolidated financial statements is extracted from the statutory financial statements for the year ended 31 December 2015 (the “2015 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 2015 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 2016 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 2015.

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2016:

- Amendments to HKAS 1, “Presentation of financial statements: Disclosure initiative” introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group’s interim financial statements.

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 23 August 2016.

These interim consolidated financial statements have not been audited.

3. Net interest income

For the six months ended 30 June

	2016	2015
Interest income		
Cash and balances with banks	133,971	166,921
Investments in securities	384,741	334,491
Advances and other accounts	<u>2,033,443</u>	<u>2,014,986</u>
	<u>2,552,155</u>	<u>2,516,398</u>
Interest expense		
Deposits from banks/ Deposits from customers	635,271	782,623
Certificates of deposit issued	36,795	41,659
Subordinated notes	106,719	97,621
Others	<u>3,855</u>	<u>673</u>
	<u>782,640</u>	<u>922,576</u>
Included within interest income		
Interest income on financial assets not at fair value through profit or loss	<u>2,546,676</u>	<u>2,512,862</u>
Included within interest expense		
Interest expenses on financial liabilities not at fair value through profit or loss	<u>777,643</u>	<u>920,654</u>

For the six months ended 30 June 2016 and 30 June 2015, there was no interest income recognised on impaired assets.

4. Net fee and commission income

For the six months ended 30 June

	2016	2015
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	78,358	69,833
- Trade finance	37,245	59,710
- Credit card	142,501	150,479
Other fee and commission income		
- Securities brokerage	36,213	81,511
- Insurance distribution and others	52,638	42,714
- Retail investment and wealth management services	102,991	110,991
- Bank services and handling fees	32,871	31,884
- Other fees	25,220	82,702
	<u>508,037</u>	<u>629,824</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	99,379	101,721
- Other fees paid	9,793	6,538
	<u>109,172</u>	<u>108,259</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

	2016	2015
Net gain arising from dealing in foreign currencies	62,666	95,851
Net gain on trading securities	3,946	2,931
Net gain from derivatives entered into for trading purpose	15,185	30,640
Net gain/ (loss) arising from financial instruments subject to fair value hedge	11,100	(8,935)
Net (loss)/ gain arising from financial instruments designated at fair value through profit or loss	(2,251)	4,482
	<u>90,646</u>	<u>124,969</u>

6. Other operating income

For the six months ended 30 June

	2016	2015
Dividend income from investments in available-for-sale securities		
- Listed investments	4,527	3,525
- Unlisted investments	4,501	4,499
Gross rental income from investment properties	11,692	11,397
Other rental income	5,563	6,361
Others	6,380	3,694
	<u>32,663</u>	<u>29,476</u>

7. Operating expenses

For the six months ended 30 June

	2016	2015
Employee compensation and benefit expenses (including directors' remuneration)	756,179	716,842
Premises and other fixed assets expenses, excluding depreciation	154,883	142,366
Depreciation (Note 16)	80,418	81,174
Advertising and promotion costs	32,108	41,464
Printing, stationery and postage	16,270	16,128
Amortisation expenses of intangible assets	583	1,020
Others	81,273	94,343
	<u>1,121,714</u>	<u>1,093,337</u>

8. Loan impairment losses

For the six months ended 30 June

	2016	2015
Net charge of impairment losses on advances and other accounts		
- Individually assessed	170,975	70,605
- Collectively assessed	173,504	122,559
	<u>344,479</u>	<u>193,164</u>
Of which		
- new and additional allowances (including amounts directly written off in the period)	409,663	262,383
- releases	(39,348)	(47,349)
- recoveries	(25,836)	(21,870)
	<u>344,479</u>	<u>193,164</u>

9. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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

	2016	2015
Current income tax		
- Hong Kong profits tax	108,265	150,330
- Overseas taxation	19,217	18,624
- Under-provision in prior periods	1,307	4,450
Deferred income tax		
- Origination and reversal of temporary differences	<u>16,377</u>	<u>(3,309)</u>
Taxation	<u>145,166</u>	<u>170,095</u>

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

	As at 30 Jun 2016	As at 31 Dec 2015
Trading securities:		
Debt securities:		
- Listed in Hong Kong	85,473	58,398
- Unlisted	<u>8,995,011</u>	<u>8,513,996</u>
Total trading securities	<u>9,080,484</u>	<u>8,572,394</u>
Financial assets designated at fair value through profit or loss:		
Debt securities:		
- Listed outside Hong Kong	<u>14,264</u>	<u>16,498</u>
Total trading securities and financial assets designated at fair value through profit or loss	<u>9,094,748</u>	<u>8,588,892</u>
Included within debt securities are:		
- Government bonds included in trading securities which are cash equivalents	2,619,618	228,497
- Government bonds included in trading securities	6,460,616	8,343,648
- Other debt securities issued by:		
- Public sector entities	250	249
- Corporate entities	<u>14,264</u>	<u>16,498</u>
	<u>9,094,748</u>	<u>8,588,892</u>

As at 30 June 2016 and 31 December 2015, 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 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	84,527,419	356,412	(293,900)
Currency options purchased and written	37,291,107	302,894	(303,418)
b) <i>Interest rate derivatives</i>			
Interest rate swaps	3,351,964	32,158	(75,141)
c) <i>Equity derivatives</i>			
Equity options purchased and written	120,894	1,089	(1,090)
Total derivative assets/ (liabilities) held for trading	125,291,384	692,553	(673,549)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	23,281,923	236,382	(762,956)
Currency swaps	1,292,848	-	(110,168)
Total derivative assets/ (liabilities) held for hedging	24,574,771	236,382	(873,124)
Total recognised derivative financial assets/ (liabilities)	149,866,155	928,935	(1,546,673)

11. Derivative financial instruments (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as at 31 December 2015 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	81,116,914	269,836	(258,369)
Currency options purchased and written	55,739,652	572,595	(574,619)
b) <i>Interest rate derivatives</i>			
Interest rate swaps	4,867,283	34,377	(98,232)
c) <i>Equity derivatives</i>			
Equity options purchased and written	222,582	7,961	(7,924)
Total derivative assets/ (liabilities) held for trading	141,946,431	884,769	(939,144)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	19,850,922	194,559	(340,795)
Currency swaps	1,234,871	-	(178,493)
Total derivative assets/ (liabilities) held for hedging	21,085,793	194,559	(519,288)
Total recognised derivative financial assets/ (liabilities)	163,032,224	1,079,328	(1,458,432)

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 without taking into account the effect of bilateral netting arrangements that the Group entered into, are as follows:

	As at 30 Jun 2016	As at 31 Dec 2015
Exchange rate contracts		
Forward and futures contracts	526,674	487,000
Currency swaps	2,586	12,349
Currency options purchased	561,714	1,128,111
Interest rate contracts		
Interest rate swaps	162,291	139,476
Other contracts	4,486	13,714
	<u>1,257,751</u>	<u>1,780,650</u>

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 2016	As at 31 Dec 2015
Gross advances to customers	111,903,770	109,632,646
Trade bills	5,463,468	6,469,899
Other assets		
- Accounts receivable and prepayments	2,478,550	2,084,215
- Accrued income	731,739	715,756
- Others	197,275	227,699
	<u>120,774,802</u>	<u>119,130,215</u>
Less: impairment allowances (Note 13)		
- Individually assessed	(501,270)	(347,538)
- Collectively assessed	(413,107)	(367,229)
	<u>(914,377)</u>	<u>(714,767)</u>
Advances and other accounts	<u>119,860,425</u>	<u>118,415,448</u>

12. Advances and other accounts (Continued)

(a) Impaired, overdue and rescheduled assets

(i) Impaired loans

	As at 30 Jun 2016	As at 31 Dec 2015
Impaired loans and advances		
- Individually impaired (Note (1))	1,132,309	796,319
- Collectively impaired (Note (2))	<u>23,808</u>	<u>21,815</u>
	<u>1,156,117</u>	818,134
Impairment allowances made		
- Individually assessed (Note (3))	(480,195)	(327,953)
- Collectively assessed (Note (2))	<u>(21,767)</u>	<u>(20,026)</u>
	<u>(501,962)</u>	<u>(347,979)</u>
	<u>654,155</u>	470,155
Fair value of collaterals held *	<u>783,237</u>	<u>582,726</u>
Impaired loans and advances as a % of total loans and advances to customers	<u>1.03%</u>	<u>0.75%</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 2016		As at 31 Dec 2015	
	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	268,209	0.24	229,892	0.21
- one year or less but over six months	352,399	0.31	260,593	0.24
- over one year	342,098	0.31	209,635	0.19
	962,706	0.86	700,120	0.64
Market value of securities held against the secured overdue advances	981,849		1,196,607	
Secured overdue advances	648,136		525,584	
Unsecured overdue advances	314,570		174,536	
Individual impairment allowances	383,863		213,854	

Collateral and securities held against impaired or overdue loans are principally represented by 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 2016	% of total	As at 31 Dec 2015	% of total
Advances to customers	<u>375,231</u>	0.34	<u>243,284</u>	0.22
Impairment allowances	<u>27,933</u>		<u>15,825</u>	

(iv) Trade bills

	As at 30 Jun 2016	As at 31 Dec 2015
Trade bills which have been overdue for:		
- six months or less but over three months	4,647	1,975
- one year or less but over six months	5,244	3,070
- over one year	<u>3,074</u>	<u>-</u>
	<u>12,965</u>	<u>5,045</u>

(b) Repossessed collateral

Repossessed collateral held is as follows:

	As at 30 Jun 2016	As at 31 Dec 2015
Nature of assets		
Repossessed properties	196,663	140,163
Others	<u>7,216</u>	<u>7,464</u>
	<u>203,879</u>	<u>147,627</u>

13. Impairment allowances against advances to customers and other accounts

	Individually assessed	Collectively assessed	Total
At 1 January 2016	347,538	367,229	714,767
Impairment losses charged	170,975	173,504	344,479
Loans written off as uncollectible	(23,153)	(144,581)	(167,734)
Recoveries of advances written off in previous years	6,776	19,060	25,836
Exchange and other adjustments	(866)	(2,105)	(2,971)
	<u>501,270</u>	<u>413,107</u>	<u>914,377</u>
At 30 June 2016			
Deducted from:			
Trade bills	1,977	12,237	14,214
Advances to customers	480,195	400,375	880,570
Accrued interest and other accounts	19,098	495	19,593
	<u>501,270</u>	<u>413,107</u>	<u>914,377</u>
	Individually assessed	Collectively assessed	Total
At 1 January 2015	238,250	296,666	534,916
Impairment losses charged	218,941	292,411	511,352
Loans written off as uncollectible	(119,927)	(257,212)	(377,139)
Recoveries of advances written off in previous years	15,026	38,372	53,398
Exchange and other adjustments	(4,752)	(3,008)	(7,760)
	<u>347,538</u>	<u>367,229</u>	<u>714,767</u>
At 31 December 2015			
Deducted from:			
Trade bills	-	8,901	8,901
Advances to customers	327,953	358,072	686,025
Accrued interest and other accounts	19,585	256	19,841
	<u>347,538</u>	<u>367,229</u>	<u>714,767</u>

14. Available-for-sale securities

	As at 30 Jun 2016	As at 31 Dec 2015
Debt securities:		
- Listed in Hong Kong	13,484,482	12,683,540
- Listed outside Hong Kong	11,461,463	9,060,290
- Unlisted	<u>1,997,591</u>	<u>1,989,695</u>
	<u>26,943,536</u>	<u>23,733,525</u>
Equity securities:		
- Listed in Hong Kong	251,926	208,587
- Unlisted	<u>204,954</u>	<u>245,733</u>
	<u>456,880</u>	<u>454,320</u>
Total available-for-sale securities	<u>27,400,416</u>	<u>24,187,845</u>

Note:

As at 30 June 2016 and 31 December 2015, there were no certificates of deposit held included in the above balances of investments in debt securities.

	As at 30 Jun 2016	As at 31 Dec 2015
Available-for-sale securities are analysed by categories of issuers as follows:		
- Central governments and central banks	3,521,640	3,848,200
- Public sector entities	579,755	500,463
- Banks and other financial institutions	4,162,303	4,132,163
- Corporate entities	19,134,265	15,704,566
- Others	<u>2,453</u>	<u>2,453</u>
	<u>27,400,416</u>	<u>24,187,845</u>

15. Held-to-maturity securities

	As at 30 Jun 2016	As at 31 Dec 2015
Debt securities:		
- Listed in Hong Kong	3,107,095	2,384,910
- Listed outside Hong Kong	3,986,690	4,441,722
- Unlisted	3,999,890	3,649,664
	<u>11,093,675</u>	<u>10,476,296</u>
Included within debt securities are:		
- Certificates of deposit held	853,774	1,177,533
- Other debt securities	10,239,901	9,298,763
	<u>11,093,675</u>	<u>10,476,296</u>
Held-to-maturity securities are analysed by categories of issuers as follows:		
- Central governments and central banks	3,122,881	2,436,484
- Banks and other financial institutions	3,376,716	3,598,931
- Corporate entities	4,594,078	4,440,881
	<u>11,093,675</u>	<u>10,476,296</u>

16. Premises and other fixed assets

	Premises	Furniture, equipment and motor vehicles	Total
Six months ended 30 June 2016			
Opening net book amount	2,475,568	396,019	2,871,587
Additions	-	87,667	87,667
Disposals	-	(77)	(77)
Depreciation charge (Note 7)	(24,069)	(56,349)	(80,418)
Exchange difference	(3,103)	(1,202)	(4,305)
Closing net book amount	<u>2,448,396</u>	<u>426,058</u>	<u>2,874,454</u>
At 30 June 2016			
Cost	2,746,849	961,342	3,708,191
Accumulated depreciation	<u>(298,453)</u>	<u>(535,284)</u>	<u>(833,737)</u>
Net book amount	<u>2,448,396</u>	<u>426,058</u>	<u>2,874,454</u>
Year ended 31 December 2015			
Opening net book amount	2,312,676	415,532	2,728,208
Additions	233,281	96,994	330,275
Reclassification from premises to investment properties	(10,507)	-	(10,507)
Disposals	-	(1,457)	(1,457)
Depreciation charge	(54,004)	(112,782)	(166,786)
Exchange difference	(5,878)	(2,268)	(8,146)
Closing net book amount	<u>2,475,568</u>	<u>396,019</u>	<u>2,871,587</u>
At 31 December 2015			
Cost	2,750,118	912,513	3,662,631
Accumulated depreciation	<u>(274,550)</u>	<u>(516,494)</u>	<u>(791,044)</u>
Net book amount	<u>2,475,568</u>	<u>396,019</u>	<u>2,871,587</u>

17. Investment properties

	Six months ended 30 Jun 2016	Year ended 31 Dec 2015
At beginning of the period/ year	930,257	745,166
Additions	29,498	162,923
Reclassification from premises to investment properties	-	11,900
Fair value gains on revaluation	-	10,268
	<u>959,755</u>	<u>930,257</u>

The Group's investment properties were last revalued at 31 December 2015 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 2016	As at 31 Dec 2015
Demand deposits and current accounts	38,600,963	36,294,515
Savings deposits	23,051,474	21,826,622
Time, call and notice deposits	90,165,984	92,971,253
	<u>151,818,421</u>	<u>151,092,390</u>

19. Certificates of deposit issued

	As at 30 Jun 2016	As at 31 Dec 2015
At fair value under fair value hedge (for hedging interest rate risk)	4,754,953	4,361,923
At amortised cost	1,507,667	1,869,914
	<u>6,262,620</u>	<u>6,231,837</u>

The amount that the Group would be contractually required to pay at maturity to the holders of these certificates of deposit is HK\$17 million lower (31 December 2015: HK\$8 million lower) than the above carrying amount.

20. Subordinated notes

	As at 30 Jun 2016	As at 31 Dec 2015
US\$225,000,000 Subordinated Fixed Rate Notes due 2020 (Note (a))	1,925,613	1,894,565
US\$200,000,000 Perpetual Subordinated Fixed Rate Notes (Note (b))	439,384	448,814
S\$225,000,000 Subordinated Fixed Rate Notes due 2022 (Note (c))	1,288,209	1,223,184
US\$225,000,000 Subordinated Fixed Rate Notes due 2024 (Note (d))	1,781,991	1,753,331
	5,435,197	5,319,894
At fair value under fair value hedge (for hedging interest rate risk)	4,995,813	4,871,080
At amortised cost	439,384	448,814
	5,435,197	5,319,894

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 are listed on the SGX. The Notes carry an optional redemption date falling on 17 February 2017. Interest at 6.253% 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 reset and the Notes will bear interest at 3-month LIBOR plus 190 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.

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 at a discount after unwinding an identical notional amount of interest rate swap. Such repurchased Notes were cancelled after receiving prior approval of the HKMA.

- (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 are listed on the SGX. The Notes will mature on 9 February 2022 with an optional redemption date falling on 9 February 2017. Interest at 4.875% 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 Singapore Dollar swap rate plus 376 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)

(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.

The amount that the Group would be contractually required to pay at maturity to the holders of these subordinated notes is HK\$224 million lower (31 December 2015: HK\$171 million lower) than the above carrying amount.

21. Other accounts and accruals

	As at 30 Jun 2016	As at 31 Dec 2015
Accounts payable arising from purchase of securities pending for settlement	33,814	-
Other accounts payable and accruals	2,906,172	2,608,112
	<u>2,939,986</u>	<u>2,608,112</u>

22. 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 2016	As at 31 Dec 2015
Deferred income tax assets	<u>78,499</u>	<u>83,473</u>
Deferred income tax liabilities	<u>(68,789)</u>	<u>(37,543)</u>
	As at 30 Jun 2016	As at 31 Dec 2015
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	141,888	154,307
Deferred income tax liabilities:		
- Deferred income tax liabilities to be settled after more than 12 months	<u>(132,178)</u>	<u>(108,377)</u>
	<u>9,710</u>	<u>45,930</u>

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

	Six months ended 30 Jun 2016	Year ended 31 Dec 2015
At 1 January	45,930	25,535
Tax (charged)/ credited to the income statement (Note 9)	(16,377)	17,880
Tax (charged)/ credited to equity	(17,812)	6,365
Exchange difference	<u>(2,031)</u>	<u>(3,850)</u>
At 30 June/ 31 December	<u>9,710</u>	<u>45,930</u>

22. **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 2015	95,673	1,077	40,618	137,368
Credited/ (charged) to the income statement	14,572	(780)	6,997	20,789
Exchange difference	(3,677)	-	(173)	(3,850)
At 31 December 2015 and 1 January 2016	106,568	297	47,442	154,307
Charged to the income statement	(4,677)	-	(5,711)	(10,388)
Exchange difference	(1,428)	-	(603)	(2,031)
At 30 June 2016	100,463	297	41,128	141,888

Deferred income tax liabilities:

	Provisions	Accelerated tax depreciation	Investment revaluation	Total
At 1 January 2015	8,977	72,975	29,881	111,833
Charged to the income statement	759	1,297	853	2,909
Credited to equity	-	-	(6,365)	(6,365)
At 31 December 2015 and 1 January 2016	9,736	74,272	24,369	108,377
Charged to the income statement	610	5,379	-	5,989
Charged to equity	-	-	17,812	17,812
At 30 June 2016	10,346	79,651	42,181	132,178

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

	Six months ended 30 Jun 2016	Year ended 31 Dec 2015
Fair value reserves in shareholders' equity:		
- available-for-sale securities	17,812	(6,365)

23. Other reserves

	As at 30 Jun 2016	As at 31 Dec 2015
Consolidation reserve	8,827	8,827
Premises revaluation reserve	203,173	203,173
Investment revaluation reserve	312,858	207,757
Exchange reserve	(72,029)	73,404
General reserve	700,254	700,254
Reserve for share-based compensation	10,654	10,086
Retained earnings	<u>15,210,050</u>	<u>14,503,395</u>
	<u>16,373,787</u>	<u>15,706,896</u>
Proposed dividend included in retained earnings	<u>142,600</u>	<u>378,200</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 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 2016, the Bank has earmarked a regulatory reserve of HK\$1,416,000,000 (31 December 2015: HK\$1,528,440,000) first against its consolidated general reserve; and for any excess amount, the balance is earmarked against its consolidated retained earnings.

24. 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 2016	As at 31 Dec 2015
Expenditure contracted but not provided for	<u>56,734</u>	<u>165,688</u>

(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 2016	As at 31 Dec 2015
Direct credit substitutes	383,254	320,644
Transaction-related contingencies	452,945	455,868
Trade-related contingencies	410,078	438,649
Commitments that are unconditionally cancellable without prior notice	60,747,676	64,573,823
Other commitments with an original maturity of:		
- under 1 year	3,032,868	4,175,180
- 1 year and over	411,238	494,999
Forward forward deposits placed	11,013	-
	<u>65,449,072</u>	<u>70,459,163</u>
	Credit risk weighted amount	
	As at 30 Jun 2016	As at 31 Dec 2015
Contingent liabilities and commitments	<u>1,163,487</u>	<u>1,521,336</u>

24. 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 2016	As at 31 Dec 2015
Assets pledged with HKMA:		
Trading securities	3,428,853	5,771,254
Available-for-sale securities	<u>685,163</u>	<u>490,324</u>
	<u>4,114,016</u>	<u>6,261,578</u>
Associated liabilities:		
Trading liabilities	<u>3,824,813</u>	<u>6,270,630</u>

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 2016	As at 31 Dec 2015
Assets pledged under repurchase agreements:		
Available-for-sale securities	295,662	169,803
Held-to-maturity securities	<u>-</u>	<u>3,943</u>
	<u>295,662</u>	<u>173,746</u>
Associated liabilities:		
Deposits from banks	88,984	43,914
Other accounts and accruals	<u>192,490</u>	<u>123,271</u>
	<u>281,474</u>	<u>167,185</u>

24. 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 2016	As at 31 Dec 2015
Not later than 1 year	181,096	184,232
Later than 1 year and not later than 5 years	459,988	468,581
Later than 5 years	331,712	349,332
	<u>972,796</u>	<u>1,002,145</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 2016	As at 31 Dec 2015
Not later than 1 year	20,269	30,254
Later than 1 year and not later than 5 years	13,412	19,234
	<u>33,681</u>	<u>49,488</u>

25. 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 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	1,866,487	8,905,829	-	-	-	-	-	10,772,316
Placements with banks maturing between one and twelve months	-	-	4,924,784	3,258,813	-	-	-	8,183,597
Trading securities	-	2,314,810	2,977,752	3,702,507	85,415	-	-	9,080,484
Financial assets designated at fair value through profit or loss	-	-	-	-	-	14,264	-	14,264
Derivative financial instruments	-	160,084	92,985	366,865	281,564	27,437	-	928,935
Advances and other accounts	8,521,410	14,998,529	12,706,904	14,649,476	29,998,387	36,797,632	2,188,087	119,860,425
Available-for-sale securities	-	292,573	726,717	5,794,075	10,617,599	9,507,819	461,633	27,400,416
Held-to-maturity securities	-	1,054,229	770,360	4,981,448	4,287,638	-	-	11,093,675
Investment in an associate	-	-	-	-	-	-	4,344,042	4,344,042
Investments in jointly controlled entities	-	-	-	-	-	-	78,718	78,718
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	59,222	59,222
Premises and other fixed assets	-	-	-	-	-	-	2,874,454	2,874,454
Investment properties	-	-	-	-	-	-	959,755	959,755
Deferred income tax assets	-	-	-	-	78,499	-	-	78,499
Total assets	10,387,897	27,726,054	22,199,502	32,753,184	45,349,102	46,347,152	11,777,601	196,540,492
Liabilities								
Deposits from banks	76,649	867,649	-	36,646	820,500	-	-	1,801,444
Derivative financial instruments	-	102,184	72,195	533,472	308,239	530,583	-	1,546,673
Trading liabilities	-	617,988	476,098	2,673,733	56,994	-	-	3,824,813
Deposits from customers	61,652,514	29,172,740	30,726,591	29,539,038	725,478	2,060	-	151,818,421
Certificates of deposit issued	-	-	380,115	4,746,296	1,136,209	-	-	6,262,620
Subordinated notes	-	-	-	1,727,594	3,707,603	-	-	5,435,197
Other accounts and accruals	34,602	1,277,530	573,262	743,751	53,994	29	256,818	2,939,986
Current income tax liabilities	-	-	-	268,762	-	-	-	268,762
Deferred income tax liabilities	-	-	-	-	68,789	-	-	68,789
Total liabilities	61,763,765	32,038,091	32,228,261	40,269,292	6,877,806	532,672	256,818	173,966,705
Net liquidity gap	(51,375,868)	(4,312,037)	(10,028,759)	(7,516,108)	38,471,296	45,814,480	11,520,783	22,573,787

25. Maturity analysis (Continued)

At 31 December 2015	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	2,241,730	15,263,302	-	-	-	-	-	17,505,032
Placements with banks maturing between one and twelve months	-	-	4,399,719	3,098,141	-	-	-	7,497,860
Trading securities	-	970,485	1,866,683	5,685,617	49,609	-	-	8,572,394
Financial assets designated at fair value through profit or loss	-	-	-	-	-	16,498	-	16,498
Derivative financial instruments	-	127,618	61,352	321,722	522,780	45,856	-	1,079,328
Advances and other accounts	8,287,082	13,158,116	13,997,900	16,916,472	29,032,931	35,735,537	1,287,410	118,415,448
Available-for-sale securities	-	272,680	1,801,792	2,593,677	11,974,532	7,086,091	459,073	24,187,845
Held-to-maturity securities	-	1,427,783	634,405	1,865,857	6,548,251	-	-	10,476,296
Investment in an associate	-	-	-	-	-	-	4,099,217	4,099,217
Investments in jointly controlled entities	-	-	-	-	-	-	71,119	71,119
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	59,805	59,805
Premises and other fixed assets	-	-	-	-	-	-	2,871,587	2,871,587
Investment properties	-	-	-	-	-	-	930,257	930,257
Deferred income tax assets	-	-	-	-	83,473	-	-	83,473
Total assets	10,528,812	31,219,984	22,761,851	30,481,486	48,211,576	42,883,982	10,590,158	196,677,849
Liabilities								
Deposits from banks	21,047	96,303	40,000	581,254	812,307	-	-	1,550,911
Derivative financial instruments	-	90,088	62,248	357,894	763,153	185,049	-	1,458,432
Trading liabilities	-	436,010	267,504	5,504,770	62,346	-	-	6,270,630
Deposits from customers	58,121,137	32,442,450	32,164,278	27,617,351	747,174	-	-	151,092,390
Certificates of deposit issued	-	1,310,093	1,850,594	1,616,677	1,454,473	-	-	6,231,837
Subordinated notes	-	-	-	-	5,319,894	-	-	5,319,894
Other accounts and accruals	21,625	838,419	631,099	758,844	45,972	-	312,153	2,608,112
Current income tax liabilities	-	-	-	201,204	-	-	-	201,204
Deferred income tax liabilities	-	-	-	-	37,543	-	-	37,543
Total liabilities	58,163,809	35,213,363	35,015,723	36,637,994	9,242,862	185,049	312,153	174,770,953
Net liquidity gap	(47,634,997)	(3,993,379)	(12,253,872)	(6,156,508)	38,968,714	42,698,933	10,278,005	21,906,896

26. 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 2016	Level 1	Level 2	Level 3	Total
Descriptions				
Financial assets at fair value through profit or loss				
Held for trading				
Debt securities	-	9,080,484	-	9,080,484
Designated at fair value through profit or loss				
Debt securities	-	14,264	-	14,264
Derivative financial instruments				
Held for trading	-	692,553	-	692,553
Held for hedging	-	236,382	-	236,382
Available-for-sale financial assets				
Debt securities	-	26,938,783	4,753	26,943,536
Equity securities	251,926	129,856	75,098	456,880
Total assets measured at fair value	251,926	37,092,322	79,851	37,424,099
Financial liabilities at fair value through profit or loss				
Held for trading	-	3,824,813	-	3,824,813
Derivative financial instruments				
Held for trading	-	673,549	-	673,549
Held for hedging	-	873,124	-	873,124
Total liabilities measured at fair value	-	5,371,486	-	5,371,486

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 2016 and the year ended 31 December 2015, 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.

26. Fair value hierarchy (Continued)

Assets and liabilities measured at fair value: (Continued)

At 31 Dec 2015	Level 1	Level 2	Level 3	Total
Descriptions				
Financial assets at fair value through profit or loss				
Held for trading				
Debt securities	-	8,572,394	-	8,572,394
Designated at fair value through profit or loss				
Debt securities	-	16,498	-	16,498
Derivative financial instruments				
Held for trading	42	884,727	-	884,769
Held for hedging	-	194,559	-	194,559
Available-for-sale financial assets				
Debt securities	-	23,728,772	4,753	23,733,525
Equity securities	208,587	170,703	75,030	454,320
Total assets measured at fair value	<u>208,629</u>	<u>33,567,653</u>	<u>79,783</u>	<u>33,856,065</u>
Financial liabilities at fair value through profit or loss				
Held for trading	-	6,270,630	-	6,270,630
Derivative financial instruments				
Held for trading	-	939,144	-	939,144
Held for hedging	-	519,288	-	519,288
Total liabilities measured at fair value	<u>-</u>	<u>7,729,062</u>	<u>-</u>	<u>7,729,062</u>

27. 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 and credit card services, 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.

27. 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
Provision for loss on dilution of interest in an associate	-	-	-	-	-	-	-
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 30 June 2016							
Segment assets	45,339,194	55,152,495	60,957,463	32,710,197	5,383,311	(3,002,168)	196,540,492
Segment liabilities	86,584,162	37,627,899	13,718,468	23,974,178	15,064,166	(3,002,168)	173,966,705

27. Operating segment reporting (Continued)

For the six months ended 30 June 2015

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/ (expenses)	661,831	550,376	147,864	261,691	(27,940)	-	1,593,822
Non-interest income	338,239	136,596	125,327	67,296	8,552	-	676,010
Total operating income/ (loss)	1,000,070	686,972	273,191	328,987	(19,388)	-	2,269,832
Operating expenses	(599,114)	(187,869)	(71,525)	(235,166)	337	-	(1,093,337)
Operating profit/ (loss) before impairment losses	400,956	499,103	201,666	93,821	(19,051)	-	1,176,495
Loan impairment losses	(114,497)	(51,425)	-	(27,242)	-	-	(193,164)
Operating profit/ (loss) after impairment losses	286,459	447,678	201,666	66,579	(19,051)	-	983,331
Net (loss)/ gain on disposal of other fixed assets	(319)	(7)	(4)	11	(29)	-	(348)
Net gain on disposal of available-for- sale securities	-	-	5,779	-	-	-	5,779
Provision for loss on dilution of interest in an associate	-	-	-	(32,000)	-	-	(32,000)
Share of results of an associate	-	-	-	388,861	-	-	388,861
Share of results of jointly controlled entities	-	-	-	-	10,117	-	10,117
Profit/ (loss) before taxation	286,140	447,671	207,441	423,451	(8,963)	-	1,355,740
Taxation expenses	(47,213)	(73,865)	(34,228)	(11,233)	(3,556)	-	(170,095)
Profit / (loss) after taxation	238,927	373,806	173,213	412,218	(12,519)	-	1,185,645
For the six months ended							
30 June 2015							
Depreciation and amortisation	29,210	6,010	3,370	21,251	22,353	-	82,194
As at 31 December 2015							
Segment assets	44,238,858	55,906,000	63,141,488	31,842,489	5,182,476	(3,633,462)	196,677,849
Segment liabilities	85,575,624	37,962,644	16,816,776	23,429,044	14,620,327	(3,633,462)	174,770,953

27. 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 2016				
Operating income	2,088,000	203,689	-	2,291,689
Profit before taxation	1,120,316	109,705	-	1,230,021
As at 30 June 2016				
Total assets	178,642,713	18,894,454	(996,675)	196,540,492
Total liabilities	158,494,242	16,469,138	(996,675)	173,966,705
Intangible assets and goodwill	318,667	552,245	-	870,912
Contingent liabilities and commitments	69,232,035	1,687,363	(31,118)	70,888,280
For the six months ended 30 June 2015				
Operating income	2,069,942	199,890	-	2,269,832
Profit before taxation	1,241,642	114,098	-	1,355,740
As at 31 December 2015				
Total assets	179,735,799	18,576,197	(1,634,147)	196,677,849
Total liabilities	160,169,710	16,235,390	(1,634,147)	174,770,953
Intangible assets and goodwill	318,667	552,828	-	871,495
Contingent liabilities and commitments	76,231,176	1,862,244	(31,100)	78,062,320

28. 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 2016 and the corresponding comparative balances.

The Group did not have any structural foreign exchange position as at 30 June 2016 and 31 December 2015.

	As at 30 June 2016			
	US dollars	Macau pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions				
Spot assets	60,928	9,450	19,344	89,722
Spot liabilities	(24,588)	(10,727)	(21,817)	(57,132)
Forward purchases	27,758	126	19,661	47,545
Forward sales	(63,126)	-	(17,185)	(80,311)
Net options position	10	-	(11)	(1)
Net long/ (short) position	982	(1,151)	(8)	(177)

	At 31 December 2015				
	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions					
Spot assets	58,812	16,721	8,472	5,443	89,448
Spot liabilities	(24,177)	(16,238)	(9,566)	(8,872)	(58,853)
Forward purchases	27,958	12,735	-	5,853	46,546
Forward sales	(60,960)	(13,018)	-	(2,364)	(76,342)
Net options position	(3)	(1)	-	4	-
Net long/ (short) position	1,630	199	(1,094)	64	799

29. 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 2016		As at 31 Dec 2015	
	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	2,488,685	56.3	1,909,605	66.5
- Property investment	15,687,305	99.6	16,136,906	98.5
- Financial concerns	2,989,499	43.5	1,118,110	30.7
- Stockbrokers	794,567	40.3	965,931	45.1
- Wholesale and retail trade	4,311,475	91.4	4,144,996	90.1
- Manufacturing	2,451,800	93.1	3,026,032	93.5
- Transport and transport equipment	3,635,577	84.1	3,713,584	89.1
- Recreational activities	62,100	100.0	262,522	56.5
- Information technology	76,361	88.9	72,019	89.1
- Others	5,612,152	82.0	5,454,602	83.3
	38,109,521	85.7	36,804,307	88.5
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	811,282	100.0	869,023	100.0
- Loans for the purchase of other residential properties	21,745,196	99.9	21,260,300	99.9
- Credit card advances	4,570,814	-	4,465,225	-
- Others	9,921,128	35.8	9,217,401	37.5
	37,048,420	70.4	35,811,949	71.4
Loans for use in Hong Kong	75,157,941	78.1	72,616,256	80.1
Trade finance (Note (1))	7,592,125	67.7	7,394,880	66.5
Loans for use outside Hong Kong (Note (2))	29,153,704	70.5	29,621,510	68.7
	111,903,770	75.4	109,632,646	76.1

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 overseas subsidiary banks of the Bank) totalling HK\$557,598,000 (31 December 2015: HK\$592,075,000) 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.

29. 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 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	15,687,305	106,992	67,787	16,546	39,218
Individuals - Loans for the purchase of other residential properties	21,745,196	16,154	19,473	-	3,348
Loans for use outside Hong Kong	<u>29,153,704</u>	<u>370,082</u>	<u>353,935</u>	<u>201,106</u>	<u>169,446</u>
As at 31 Dec 2015					
	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	16,136,906	-	45,009	-	26,886
Individuals - Loans for the purchase of other residential properties	21,260,300	-	23,645	-	2,222
Loans for use outside Hong Kong	<u>29,621,510</u>	<u>304,159</u>	<u>356,762</u>	<u>191,321</u>	<u>184,899</u>

29. 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 2016	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)	6,635,630	615,958	7,251,588
2. Local governments, local government-owned entities and their subsidiaries and JVs	2,120,367	254,285	2,374,652
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	7,217,834	1,680,287	8,898,121
4. Other entities of central government not reported in item 1 above	1,327,918	4,661	1,332,579
5. Other entities of local governments not reported in item 2 above	55,108	36,851	91,959
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	9,496,177	298,673	9,794,850
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	402,506	-	402,506
	<u>27,255,540</u>	<u>2,890,715</u>	<u>30,146,255</u>
Total assets of the Bank and its Mainland subsidiary bank after provision	<u>179,544,315</u>		
On-balance sheet exposures as percentage of total assets	<u>15.18%</u>		

29. Additional analysis on claims and exposures (Continued)

(b) Mainland activities exposures (Continued)

As at 31 December 2015	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1. Central government, central government-owned entities and their subsidiaries and JVs	5,600,248	342,416	5,942,664
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,812,458	556,047	2,368,505
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	6,880,961	2,069,484	8,950,445
4. Other entities of central government not reported in item 1 above	671,859	174,376	846,235
5. Other entities of local governments not reported in item 2 above	374,271	231,530	605,801
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	10,677,468	336,276	11,013,744
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	<u>8,270</u>	<u>-</u>	<u>8,270</u>
	<u>26,025,535</u>	<u>3,710,129</u>	<u>29,735,664</u>
Total assets of the Bank and its Mainland subsidiary bank after provision	<u>181,672,638</u>		
On-balance sheet exposures as percentage of total assets	<u>14.33%</u>		

Note:

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

29. 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 2016

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	90,679,403	1,037,435	803,161	443,430	259,842
China	7,072,037	68,710	128,465	25,921	92,129
Macau	12,431,247	26,113	31,029	10,793	42,235
Others	1,721,083	51	51	51	6,169
	111,903,770	1,132,309	962,706	480,195	400,375

As at 31 December 2015

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	88,670,794	694,726	482,606	283,589	205,814
China	7,374,771	76,030	186,222	31,712	101,454
Macau	12,014,448	25,507	31,236	12,608	44,534
Others	1,572,633	56	56	44	6,270
	109,632,646	796,319	700,120	327,953	358,072

29. 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 2016 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	4,137	15,549	6,819	111,763	138,268
- of which: Hong Kong	3,700	12,738	6,621	97,576	120,635
Developing Asia and Pacific	26,424	1,622	1,017	8,683	37,746
- of which: Mainland China	23,310	1,480	1,001	7,497	33,288

At 31 December 2015 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	3,758	13,771	3,231	113,347	134,107
- of which: Hong Kong	2,483	11,676	3,089	98,523	115,771
Developing Asia and Pacific	28,424	1,574	863	9,223	40,084
- of which: Mainland China	22,107	1,574	847	7,821	32,349

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

	As at 30 Jun 2016		As at 31 Dec 2015	
	Contract amount	% covered by collateral	Contract amount	% covered by collateral
Financial guarantees and other credit related contingent liabilities	1,246,277	26.7	1,215,161	20.6
Loan commitments and other credit related commitments	64,202,795	4.7	69,244,002	9.7
	<u>65,449,072</u>	5.1	<u>70,459,163</u>	9.8

30. Capital adequacy ratio

	As at 30 Jun 2016	As at 31 Dec 2015
Capital adequacy ratio		
- Common Equity Tier 1	12.4%	12.2%
- Tier 1	12.4%	12.2%
- Total	<u>16.7%</u>	<u>16.7%</u>

The capital adequacy ratio as at 30 June 2016 and 31 December 2015 represents the consolidated position of the Bank (covering Banco Comercial de Macau, S.A. (“BCM”) and Dah Sing Bank (China) Limited (“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. The above ratios of the Group are calculated for reference only.

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

31. Capital buffers

	As at 30 Jun 2016
Capital conservation buffer ratio	0.625%
Countercyclical capital buffer ratio	<u>0.475%</u>
	<u>1.100%</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

32. Leverage ratio

	As at 30 Jun 2016	As at 31 Dec 2015
Leverage ratio	<u>8.2%</u>	<u>7.9%</u>

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

33. Liquidity maintenance ratio

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015	Year ended 31 Dec 2015
Liquidity maintenance ratio	<u>40.8%</u>	<u>39.0%</u>	<u>39.5%</u>

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. Starting from 1 January 2015, the Group has adopted the Liquidity Maintenance Ratio ("LMR") introduced by the HKMA to replace the liquidity ratio as a regulatory standard as part of the implementation of Basel III liquidity regime in Hong Kong. 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 2015.

The LMR is calculated as the simple average of each calendar month's average consolidated liquidity 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 2016	Six months ended 30 Jun 2015
Net interest income/ operating income	77.2%	70.2%
Cost to income ratio	48.9%	48.2%
Return on average total assets (annualised)	1.1%	1.3%
Return on average shareholders' funds (annualised)	9.6%	11.6%
Net interest margin	1.94%	1.76%

	As at 30 Jun 2016	As at 31 Dec 2015
Loan to deposit ratio	70.8%	69.7%

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

The first half of 2016 continued to be difficult for both the global and local economies. Hong Kong GDP growth in the first half was 1.2%, with a slight improvement recorded in the second quarter growth at 1.7% reversing the disappointing first quarter growth at only 0.8% and the prior quarter-on-quarter contraction. Retail sales and domestic consumption were weak, though a slight year-on-year improvement was recorded in the second quarter. However, unemployment, whilst deteriorating slightly, remained at the generally benign level of 3.4%. Market conditions were also difficult with volatility in both equity and currency markets. This was further exacerbated by the unexpected outcome of the Brexit vote towards the middle of the year. Against this economic and market backdrop, US and therefore HK interest rate increases remained on hold. Globally, interest rates remain extremely low, or even negative yield for the government bonds in some developed countries. However, local liquidity conditions in Hong Kong remained benign.

Against this more difficult economic and market background, our profit attributable to shareholders for the first half of 2016 decreased by approximately 8.5% to HK\$1,085 million.

BUSINESS AND FINANCIAL REVIEW

As a result of the weakening economic conditions referred to above, the Group's performance was adversely affected. Whilst net interest income improved by 11% to HK\$1,770 million, loan growth was sluggish, and fee and commission income dropped versus the prior period. The net interest margin improved from 1.76% in the first half of 2015, 1.90% in the second half of 2015, to 1.94% in the current period, mainly due to continued low funding costs in the domestic Hong Kong market. Fee and commission income was down by 19.3% to HK\$508 million due to lower fee income from our commercial banking and trade finance business, a worse performance from our retail securities broking business and wealth management product sales, and lower sales of treasury products, particularly to our corporate customers. Our bancassurance distribution in the period, however, reported both increased volumes and commission income compared with the prior period. Our overseas banking business reported slightly improved performance. Despite that our share of the net profit of Bank of Chongqing ("BOCQ") dropped following the dilution in our shareholding from approximately 17% to approximately 14.7% caused by the completion of their share placement towards the end of last year, a solid increase in the underlying net profit of BOCQ by around 10% in the period, and our HK\$32 million provision for the possible accounting loss on the deemed partial disposal of our interest in BOCQ made in mid 2015 resulted in a rather mild impact, when compared with the first half of 2015, in the overall contribution from BOCQ recognised in our consolidated results. Our Macau business reported moderately lower profitability, whilst the performance of our Mainland subsidiary, Dah Sing Bank (China), improved. Credit costs overall were up, led mainly by increases in loan impairments in our Hong Kong based commercial banking business due to financial difficulties experienced by some SME borrowers, as well as some increase in collective impairment charges in our retail banking business, driven mainly by increases in volumes of unsecured personal loans.

Both return on assets of 1.1% and ROE of 9.6% were lower than in the same period in 2015, due to the lower level of profit reported. The cost to income ratio was slightly up from 48.2% to 48.9% due to the reduced income during the period, despite tight cost control.

As at 30 June 2016, the Bank's consolidated Common Equity Tier 1 ratio strengthened to 12.4%, compared with 12.2% at the end of 2015, driven by slower asset growth coupled with higher retained earnings, as no additional capital raising was undertaken during the period. Total consolidated capital adequacy ratio stood at 16.7%, same as at the end of last year despite the growth in Common Equity Tier 1 mentioned above, mainly due to the phase out of a portion of the non-Basel III compliant subordinated debts as eligible Tier 2 capital base under the transitional arrangement.

BUSINESS AND FINANCIAL REVIEW (Continued)

On 2 June 2016, the Bank's ultimate holding company Dah Sing Financial Holdings Limited ("DSFH"), together with a DSFH subsidiary, entered into the share sale agreement (the "Share Sale Agreement") with a wholly owned subsidiary of Fujian Thai Hot Investment Company, Limited ("Thai Hot") for the sale to Thai Hot of Dah Sing Life Assurance Company Limited ("DSL A") and Macau Life Insurance Company Limited ("MLIC"), DSFH's life insurance subsidiaries in Hong Kong and Macau respectively, subject to certain conditions precedent including regulatory approvals. The Bank and Banco Comercial de Macau, the banking subsidiary of the Bank, propose to enter into new bancassurance distribution agreements for 15 years ("New DAs") with DSL A and MLIC respectively. Subject to satisfaction or waiver of the relevant conditions precedent, DSL A and MLIC will become subsidiaries of Thai Hot on completion of the Share Sale Agreement. The New DAs will be signed and come into effect upon completion of the sale of DSL A and MLIC by DSFH and the subsidiary under the Share Sale Agreement.

The Bank's holding company Dah Sing Banking Group Limited ("DSBG") issued an announcement on 2 June 2016 regarding the proposed connected transactions and continuing connected transactions in relation to the New DAs, which are subject to the approval of the independent shareholders of DSBG. An Extraordinary General Meeting ("EGM") of DSBG was held on 5 August 2016 to confirm and approve the entering into of the New DAs. As announced previously by DSBG, 99.999% of the votes cast by the independent shareholders at the EGM were in favour of the resolution to approve the entry into of the New DAs.

PROSPECTS

Conditions in the first half of 2016 have generally been difficult. Local and global economic conditions have generally weakened, and Hong Kong has experienced a relatively slower GDP growth during the first half of the year, which is not expected to improve strongly in the near term, based on the Hong Kong Government's forecast that local GDP growth in 2016 is expected to be in the range of 1-2%. Financial markets have been volatile, and weak equity markets and large moves in FX have generally been negative for our fee and commission income. Whilst economic growth in Mainland China continues to be at the upper end of the range globally, there is continued evidence that growth has slowed significantly when compared to that experienced a few years ago.

These more difficult economic and market conditions have led to slower loan growth, lower fee and commission income, and higher loan impairment charges. It is unlikely that local economic conditions will rebound strongly in the near future, and therefore business conditions are expected to remain weak in the second half of the year. As the sluggish rate of loan growth continues and is not expected to recover strongly in the second half of the year, this has begun to be reflected in lower loan pricing for certain loan products such as residential mortgages.

More encouragingly, despite the weaker economic conditions, unemployment remains relatively low, and local market liquidity is strong. Whilst credit quality has worsened somewhat, the pace of deterioration remains manageable. Costs remain under control generally, and interest rates have remained low. Whilst it is still possible that the US Federal Reserve will raise US interest rates before the end of the year, in general interest rates have remained lower than was expected at the beginning of the year. There are a number of global political uncertainties at present, including the results of the US Presidential election later in the year, as well as the further development of "Brexit" as the UK makes preparations to leave the European Union.

For all of these reasons, we remain cautious as to the outlook in the second half of the year, and our business will be managed accordingly. This means that we will continue to be cautious as regards credit and overall risk management, and will manage costs appropriately. Continued engagement with our customers remains key, and we will look for opportunities to ensure that we can continue to provide quality service to customers. In line with our vision and strategy to grow with our customers, the Bank launched in July a campaign in the second half of the year to promote our brand with the theme of "Together we progress and prosper".

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 2016 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 Wai Nar Wong
Company Secretary

Hong Kong, Tuesday, 23 August 2016