

Dah Sing Bank, Limited



ANNOUNCEMENT OF 2019 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 2019.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June

HK\$'000	Note	2019	2018	Variance %
Interest income		3,691,486	3,159,713	
Interest expense		(1,658,987)	(1,048,890)	
Net interest income	3	2,032,499	2,110,823	-3.7%
Fee and commission income		726,492	778,574	
Fee and commission expense		(149,849)	(161,505)	
Net fee and commission income	4	576,643	617,069	-6.6%
Net trading income/ (loss)	5	10,515	(10,770)	
Other operating income	6	35,105	38,871	
Operating income		2,654,762	2,755,993	-3.7%
Operating expenses	7	(1,376,441)	(1,286,226)	7.0%
Operating profit before impairment losses		1,278,321	1,469,767	-13.0%
Credit impairment losses	8	(91,360)	(38,185)	139.3%
Operating profit before gains and losses on certain investments and fixed assets		1,186,961	1,431,582	-17.1%
Net loss on disposal of other fixed assets		(2,521)	(268)	
Net (loss)/ gain on disposal of financial assets at fair value through other comprehensive income		(24)	665	
Impairment loss on investment in an associate	9	(70,000)	(403,000)	
Share of results of an associate		410,860	409,941	
Share of results of jointly controlled entities		12,499	12,386	
Profit before taxation		1,537,775	1,451,306	6.0%
Taxation	10	(194,218)	(233,481)	
Profit for the period		1,343,557	1,217,825	10.3%
Dividend				
Interim dividend		182,900	182,900	

Dah Sing Bank, Limited**UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June

HK\$'000	2019	2018
Profit for the period	1,343,557	1,217,825
Other comprehensive income for the period		
Items that may be reclassified to the consolidated income statement:		
Investments in securities		
Net change in fair value of debt instruments at fair value through other comprehensive income	344,162	(288,526)
Net change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	5,959	(5,932)
Net loss/ (gain) realised and transferred to income statement upon:		
- Disposal of debt instruments at fair value through other comprehensive income	24	(665)
Deferred income tax related to the above	(45,626)	42,244
	304,519	(252,879)
Exchange differences arising on translation of the financial statements of foreign entities	(18,228)	(93,906)
Items that will not be reclassified to the consolidated income statement:		
Net change in fair value of equity instruments at fair value through other comprehensive income	1,842	791
Deferred income tax related to the above	(300)	(138)
	1,542	653
Other comprehensive income/ (loss) for the period, net of tax	287,833	(346,132)
Total comprehensive income for the period, net of tax	1,631,390	871,693

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$'000	Note	As at 30 Jun 2019	As at 31 Dec 2018
ASSETS			
Cash and balances with banks		14,382,621	16,352,429
Placements with banks maturing between one and twelve months		7,305,747	10,241,980
Trading securities	11	6,308,273	7,621,184
Financial assets at fair value through profit or loss	11	328,517	327,483
Derivative financial instruments	12	441,103	727,043
Advances and other accounts	13	140,827,637	136,186,907
Financial assets at fair value through other comprehensive income	15	44,740,045	41,654,436
Financial assets at amortised cost	16	9,806,140	9,132,720
Investment in an associate	9	3,928,136	3,620,597
Investments in jointly controlled entities		100,190	87,691
Goodwill		811,690	811,690
Intangible assets		58,252	58,252
Premises and other fixed assets	17	2,863,932	2,923,147
Investment properties	18	1,236,930	1,236,930
Current income tax assets		-	1,563
Deferred income tax assets	23	103,811	154,354
Total assets		233,243,024	231,138,406
LIABILITIES			
Deposits from banks		2,662,582	3,797,556
Derivative financial instruments	12	848,164	473,273
Trading liabilities		6,289,961	5,758,954
Deposits from customers	19	177,290,731	173,910,012
Certificates of deposit issued	20	6,139,736	6,535,076
Subordinated notes	21	5,536,370	5,449,082
Other accounts and accruals	22	6,620,769	8,237,099
Current income tax liabilities		322,503	593,997
Deferred income tax liabilities	23	17,401	17,508
Total liabilities		205,728,217	204,772,557
EQUITY			
Share capital		6,200,000	6,200,000
Other reserves (including retained earnings)	24	20,416,220	19,267,262
Shareholders' funds		26,616,220	25,467,262
Additional equity instruments		898,587	898,587
Total equity		27,514,807	26,365,849
Total equity and liabilities		233,243,024	231,138,406

Dah Sing Bank, Limited

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

HK\$'000	Attributable to the Shareholders of the Bank			Additional equity instruments	Total equity
	Share capital	Other reserves	Retained earnings		
Balance at 1 January 2019	6,200,000	812,021	18,455,241	898,587	26,365,849
Changes on initial application of HKFRS 16	-	-	(9,817)	-	(9,817)
Restated balance at 1 January 2019	6,200,000	812,021	18,445,424	898,587	26,356,032
Profit for the period	-	-	1,343,557	-	1,343,557
Other comprehensive income for the period	-	287,833	-	-	287,833
Provision for equity-settled share-based compensation	-	842	-	-	842
Distribution payment of additional equity instruments	-	-	(20,857)	-	(20,857)
2018 final dividend	-	-	(452,600)	-	(452,600)
Balance at 30 June 2019	6,200,000	1,100,696	19,315,524	898,587	27,514,807

HK\$'000	Attributable to the Shareholders of the Bank			Additional equity instruments	Total equity
	Share capital	Other reserves	Retained earnings		
Balance at 1 January 2018	6,200,000	1,368,751	17,649,790	898,587	26,117,128
Changes on initial application of HKFRS 9	-	50,626	(380,254)	-	(329,628)
Impact of initial application of HKFRS 9 on share of an associate	-	25,446	(284,490)	-	(259,044)
Restated balance at 1 January 2018	6,200,000	1,444,823	16,985,046	898,587	25,528,456
Profit for the period	-	-	1,217,825	-	1,217,825
Other comprehensive loss for the period	-	(346,132)	-	-	(346,132)
Provision for equity-settled share-based compensation	-	391	-	-	391
Reclassification of net change in fair value of equity instruments at fair value through other comprehensive income upon derecognition	-	14,530	(14,530)	-	-
Distribution payment of additional equity instruments	-	-	(18,182)	-	(18,182)
2017 final dividend	-	-	(434,000)	-	(434,000)
Balance at 30 June 2018	6,200,000	1,113,612	17,736,159	898,587	25,948,358

Dah Sing Bank, Limited**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended 30 June

HK\$'000	2019	2018
Cash flows from operating activities		
Cash generated from/ (absorbed by) operations	2,204,338	(4,741,216)
Interest paid on certificates of deposit issued	(91,022)	(110,191)
Hong Kong profits tax paid	(459,957)	(232,015)
Overseas tax refunded	-	1
Net cash from/ (used in) operating activities	<u>1,653,359</u>	<u>(5,083,421)</u>
Cash flows from investing activities		
Purchase of other fixed assets	(43,642)	(61,096)
Proceeds from disposal of other fixed assets	131	2
Net cash used in investing activities	<u>(43,511)</u>	<u>(61,094)</u>
Cash flows from financing activities		
Issue of subordinated notes	1,753,426	-
Repayment of subordinated notes	(1,765,339)	-
Distribution payment of additional equity instrument	(20,857)	(18,182)
Lease payments	(95,884)	-
Interest paid on subordinated notes and debt securities issued	(145,996)	(146,309)
Dividend paid on ordinary shares	(452,600)	(434,000)
Net cash used in financing activities	<u>(727,250)</u>	<u>(598,491)</u>
Net increase/ (decrease) in cash and cash equivalents	882,598	(5,743,006)
Cash and cash equivalents at beginning of the period	15,417,604	19,545,608
Effect of foreign exchange rate changes	(8,595)	(30,177)
Cash and cash equivalents at end of the period	<u>16,291,607</u>	<u>13,772,425</u>
Analysis of the balance of cash and cash equivalents:		
Cash and balances with banks	2,096,313	1,877,604
Money at call and short notice with an original maturity within three months	11,411,481	7,841,487
Treasury bills included in financial assets at fair value through profit or loss	834,668	838,790
Treasury bills included in financial assets at fair value through other comprehensive income	498,717	598,210
Placements with banks with an original maturity within three months	1,450,428	2,616,334
	<u>16,291,607</u>	<u>13,772,425</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 2019 interim consolidated financial statements does not constitute statutory financial statements.

Certain financial information in the 2019 interim consolidated financial statements is extracted from the statutory financial statements for the year ended 31 December 2018 (the “2018 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 2018 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 2019 interim condensed consolidated financial statements are consistent with those used and described in the Group’s annual audited financial statements for the year ended 31 December 2018.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 “Leases”.

The impact of the adoption of the leasing standard and the new accounting policies that have been applied from 1 January 2019 are disclosed below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(1) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The incremental borrowing rates applied to the lease liabilities of the subsidiaries of the Company, as lessees, range from 2.4% to 5.8% on 1 January 2019.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted by the Group (Continued)	
(1) Adjustments recognised on adoption of HKFRS 16 (Continued)	
	HK\$'000
Operating lease commitments disclosed as at 31 December 2018	1,294,532
Discounted using the lessee's incremental borrowing rate at the date of initial application	(131,075)
Less: short-term leases or low-value leases recognised on a straight-line basis as expense	(935)
Less: lease agreements that have been contracted for but not yet commenced	(444,139)
Less: adjustments as a result of a different treatment of extension and termination options	<u>(180,122)</u>
Lease liabilities recognised as at 1 January 2019	<u>538,261</u>

The associated right-of-use assets are related to property leases which were measured on a retrospective basis as if the new rules had always been applied.

The changes in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by HK\$523,787,000
- Prepayments – decrease by HK\$647,000
- Accounts payable – decrease by HK\$5,304,000
- Lease liabilities – increase by HK\$538,261,000

The net impact on retained earnings on 1 January 2019 was a decrease by HK\$9,817,000.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics in reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend to terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made in applying HKAS 17 and HK(IFRIC) - Int 4 "Determining whether an Arrangement contains a Lease".

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

- (a) New and amended standards adopted by the Group (Continued)
- (2) The Group's leasing activities and how these are accounted for

The Group leases various offices and branches. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, if any
- amounts expected to be payable by the lessee under residual value guarantees, if any
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT and office equipment.

- (i) Extension and termination options

Extension and termination options are included in a number of property leases entered in by subsidiaries in the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

- (a) New and amended standards adopted by the Group (Continued)
- (2) The Group's leasing activities and how these are accounted for (Continued)
 - (i) Extension and termination options (Continued)

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option, Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the six months ended 30 June 2019, no lease term is revised because of exercising extension and termination options.

There are no other HKFRSs or interpretations that are effective from 1 January 2019 or not yet effective that would be expected to have a material impact on the Group.

The interim condensed 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 27 August 2019.

These interim condensed consolidated financial statements have not been audited.

Dah Sing Bank, Limited**3. Net interest income**

For the six months ended 30 June

	2019	2018
Interest income		
Cash and balances with banks	255,189	252,372
Investments in securities	866,836	654,561
Advances and other accounts	<u>2,569,461</u>	<u>2,252,780</u>
	<u>3,691,486</u>	<u>3,159,713</u>
Interest expense		
Deposits from banks/ Deposits from customers	1,360,090	814,971
Certificates of deposit issued	75,280	59,392
Subordinated notes	149,997	133,910
Lease liabilities	7,075	-
Others	<u>66,545</u>	<u>40,617</u>
	<u>1,658,987</u>	<u>1,048,890</u>
Included within interest income		
- Trading securities and financial assets at fair value through profit or loss	70,048	38,016
- Financial assets at fair value through other comprehensive income	1,017,066	520,356
- Financial assets at amortised cost	<u>2,604,372</u>	<u>2,601,341</u>
	<u>3,691,486</u>	<u>3,159,713</u>
Included within interest expense		
- Financial liabilities not at fair value through profit or loss	<u>1,603,164</u>	<u>1,014,982</u>

4. Net fee and commission income

For the six months ended 30 June

	2019	2018
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	95,446	92,095
- Trade finance	44,040	48,355
- Credit card	174,101	195,288
Other fee and commission income		
- Securities brokerage	54,460	82,072
- Insurance distribution and others	167,827	160,400
- Retail investment and wealth management services	131,446	136,524
- Bank services and handling fees	32,517	36,356
- Other fees	26,655	27,484
	726,492	778,574
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	138,109	151,257
- Other fees paid	11,740	10,248
	149,849	161,505

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/ (loss)

For the six months ended 30 June

	2019	2018
Net loss arising from dealing in foreign currencies	(1,239)	(27,322)
Net gain on trading securities	7,346	8,391
Net (loss)/ gain from derivatives entered into for trading purpose	(2,959)	1,343
Net gain/ (loss) arising from financial instruments subject to fair value hedge	6,029	(2,054)
Net gain on financial instruments at fair value through profit or loss	1,338	8,872
	10,515	(10,770)

Dah Sing Bank, Limited**6. Other operating income**

For the six months ended 30 June

	2019	2018
Dividend income from investments in equity instruments at fair value through other comprehensive income, held at the end of the period		
- Listed investments	1,154	1,322
- Unlisted investments	2,910	4,205
Gross rental income from investment properties	13,509	15,259
Other rental income	6,538	6,649
Others	10,994	11,436
	<u>35,105</u>	<u>38,871</u>

7. Operating expenses

For the six months ended 30 June

	2019	2018
Employee compensation and benefit expenses (including directors' remuneration)	943,942	876,833
Premises and other fixed assets expenses, excluding depreciation	89,149	163,077
Depreciation		
- Premises and other fixed assets (Note 17)	99,764	92,716
- Right-of-use properties	90,880	-
Advertising and promotion costs	44,671	41,548
Printing, stationery and postage	22,668	23,710
Others	85,367	88,342
	<u>1,376,441</u>	<u>1,286,226</u>

8. Credit impairment losses

For the six months ended 30 June

	2019	2018
New allowances net of allowance releases	123,206	79,287
Recoveries of amounts previously written off	<u>(31,846)</u>	<u>(41,102)</u>
	<u>91,360</u>	<u>38,185</u>
Attributable to:		
- Advances to customers	87,342	52,452
- Other financial assets	8,826	(779)
- Loan commitments and financial guarantees	<u>(4,808)</u>	<u>(13,488)</u>
	<u>91,360</u>	<u>38,185</u>

9. Impairment loss on investment in an associate

At 30 June 2019, the fair value of the Group's investment in Bank of Chongqing ("BOCQ") had been below the carrying amount for approximately 5.5 years. On this basis, the Group continues to perform an impairment test on the carrying amount of the investment in BOCQ to assess the recoverable amount. Based on the assessment conducted in 2016 and before, the recoverable amount was assessed as higher than the carrying amount, and no impairment needed to be recognised.

The impairment test is performed by comparing the recoverable amount of BOCQ, determined by a value in use ("VIU") calculation, with the carrying amount of the investment. The VIU calculation uses discounted cash flow projections based on management's estimates of BOCQ's earnings and dividends to be paid in future, and the estimated probable exit value in future after considering the growth of BOCQ and its net asset value for the medium and longer term. The discount rate applied to the VIU calculation was estimated with reference to BOCQ's cost of equity, which is publicly available in the market.

In performing the VIU calculation to arrive at the recoverable amount of the investment, the Group considers all relevant factors including market views and qualitative factors to ensure that the inputs to the VIU calculation are appropriate. Adjustments need to be made to reflect the latest situation affecting BOCQ and also market outlook for the medium and longer term that are relevant in projecting BOCQ's future performance. Significant management judgement is required in estimating the future cash flows of BOCQ.

Based on the assessment conducted for the position up to 31 December 2018, the recoverable amount, as determined by the VIU calculation and after considering all relevant factors and valuation assumptions, remained below the carrying amount, and a cumulative impairment charge at HK\$1,448 million had been recognised. The latest impairment test performed by the Group for the position as at 30 June 2019 concludes that the recoverable amount, based on the VIU calculation, is assessed as lower than the carrying amount, after deducting the cumulative impairment allowance made up to 31 December 2018 of HK\$1,448 million, by HK\$70 million. As a result, an additional impairment charge of HK\$70 million was recognised in the first half of 2019 to reduce the value of the investment to HK\$3,928.1 million.

The calculation of the Bank's capital adequacy does not include the retained earnings from the Investment, except for BOCQ cash dividend received by the Bank. Provided that the Investment continues to be held at or above the original cost of the investment of HK\$1,213 million, impairment made on the Investment does not affect the Bank's capital adequacy.

10. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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

	2019	2018
Current income tax		
- Hong Kong profits tax	174,756	207,073
- Overseas taxation	15,270	24,165
Deferred income tax		
- Origination and reversal of temporary differences	4,192	2,243
Taxation	194,218	233,481

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

	As at 30 Jun 2019	As at 31 Dec 2018
Trading securities:		
Debt securities:		
- Listed in Hong Kong	20,724	33,575
- Unlisted	6,287,549	7,587,609
	6,308,273	7,621,184
Financial assets at fair value through profit or loss: Categorised based on requirements of HKFRS 9:		
Debt securities:		
- Unlisted	328,517	327,483
Total	6,636,790	7,948,667
Included within debt securities are:		
- Treasury bills which are cash equivalents	834,668	-
- Other treasury bills	5,473,605	7,620,661
- Government bonds	-	523
- Other debt securities issued by:		
- Corporate entities	328,517	327,483
	6,636,790	7,948,667

As at 30 June 2019 and 31 December 2018, there were no certificates of deposit held included in the above balances.

12. Derivative financial instruments

The notional principal amounts of outstanding derivatives contracts and their fair values as at 30 June 2019 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	72,184,274	270,475	(240,988)
Currency options purchased and written	13,618,888	10,942	(11,008)
b) <i>Interest rate derivatives</i>			
Interest rate futures	804,147	-	(620)
Interest rate swaps	1,467,947	17,300	(13,236)
Interest rate options purchased and written	675,998	-	(687)
c) <i>Equity derivatives</i>			
Equity options purchased and written	391,596	4,599	(4,603)
Total derivative assets/ (liabilities) held for trading	89,142,850	303,316	(271,142)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	33,984,506	137,787	(577,022)
Total derivative assets/ (liabilities) held for hedging	33,984,506	137,787	(577,022)
Total recognised derivative financial assets/ (liabilities)	123,127,356	441,103	(848,164)

12. Derivative financial instruments (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as at 31 December 2018 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	67,192,282	262,900	(328,733)
Currency options purchased and written	9,883,176	8,677	(8,505)
b) <i>Interest rate derivatives</i>			
Interest rate futures	39,154	-	(589)
Interest rate swaps	2,392,768	11,611	(7,915)
Interest rate options purchased and written	678,038	16	(105)
c) <i>Equity derivatives</i>			
Equity options purchased and written	422,016	6,195	(6,201)
Total derivative assets/ (liabilities) held for trading	80,607,434	289,399	(352,048)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	28,818,549	437,644	(121,225)
Total derivative assets/ (liabilities) held for hedging	28,818,549	437,644	(121,225)
Total recognised derivative financial assets/ (liabilities)	109,425,983	727,043	(473,273)

The credit risk weighted amounts of the above off-balance sheet exposures, before taking into account the effect of bilateral netting arrangements that the Group entered into, are as follows:

	As at 30 Jun 2019	As at 31 Dec 2018
Exchange rate contracts		
Forward and futures contracts	440,482	418,597
Currency options purchased	262,332	174,542
Interest rate contracts		
Interest rate swaps	74,212	155,262
Interest rate options	1,690	1,712
Other contracts	14,228	16,778
	792,944	766,891

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.

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13. Advances and other accounts

	As at 30 Jun 2019	As at 31 Dec 2018
Gross advances to customers	132,387,718	128,630,279
Less: impairment allowances		
- Stage 1	(421,621)	(423,650)
- Stage 2	(120,139)	(127,284)
- Stage 3	(330,555)	(362,989)
	<u>(872,315)</u>	<u>(913,923)</u>
	<u>131,515,403</u>	<u>127,716,356</u>
Trade bills	4,179,461	4,677,262
Less: impairment allowances		
- Stage 1	(2,856)	(2,100)
- Stage 2	(27)	(23)
	<u>(2,883)</u>	<u>(2,123)</u>
	<u>4,176,578</u>	<u>4,675,139</u>
Right-of-use assets	<u>485,842</u>	-
Other assets		
- Accounts receivable arising from sale of securities pending for settlement	3,252	-
- Accounts receivable and prepayments	3,324,076	2,611,222
- Accrued income	1,091,897	1,033,249
- Others	249,929	167,726
	<u>4,669,154</u>	<u>3,812,197</u>
Less: impairment allowances		
- Stage 1	(9,123)	(6,651)
- Stage 2	(586)	(491)
- Stage 3	(9,631)	(9,643)
	<u>(19,340)</u>	<u>(16,785)</u>
	<u>4,649,814</u>	<u>3,795,412</u>
Advances and other accounts	<u>140,827,637</u>	<u>136,186,907</u>

13. Advances and other accounts (Continued)

(a) Impaired, overdue and rescheduled assets

(i) Impaired loans

	As at 30 Jun 2019	As at 31 Dec 2018
Gross loans and advances	132,387,718	128,630,279
Less: total impairment allowances	<u>(872,315)</u>	<u>(913,923)</u>
Net	<u>131,515,403</u>	<u>127,716,356</u>
Credit-impaired loans and advances	843,586	970,166
Less: Stage 3 impairment allowances	<u>(330,555)</u>	<u>(362,989)</u>
Net	<u>513,031</u>	<u>607,177</u>
Fair value of collaterals held *	<u>387,271</u>	<u>503,728</u>
Credit-impaired loans and advances as a % of total loans and advances to customers	<u>0.64%</u>	<u>0.75%</u>

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

(ii) Gross amount of overdue loans

	As at 30 Jun 2019		As at 31 Dec 2018	
	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	179,070	0.14	99,729	0.08
- one year or less but over six months	129,685	0.10	51,812	0.04
- over one year	<u>334,380</u>	<u>0.25</u>	<u>429,568</u>	<u>0.33</u>
	<u>643,135</u>	<u>0.49</u>	<u>581,109</u>	<u>0.45</u>
Market value of securities held against the secured overdue advances	<u>1,279,136</u>		<u>565,273</u>	
Secured overdue advances	478,845		392,626	
Unsecured overdue advances	<u>164,290</u>		<u>188,483</u>	
Stage 3 impairment allowances	<u>187,693</u>		<u>227,437</u>	

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

13. 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 2019	% of total	As at 31 Dec 2018	% of total
Advances to customers	<u>272,674</u>	<u>0.21</u>	<u>311,262</u>	<u>0.24</u>
Stage 3 impairment allowances	<u>113,797</u>		<u>115,877</u>	

(iv) Trade bills

	As at 30 Jun 2019	As at 31 Dec 2018
Trade bills which have been overdue for:		
- six months or less but over three months	<u>6,026</u>	<u>-</u>
Stage 3 impairment allowances	<u>-</u>	<u>-</u>

(b) Repossessed collateral

Reposessed collateral held is as follows:

	As at 30 Jun 2019	As at 31 Dec 2018
Nature of assets		
Reposessed properties	<u>141,893</u>	153,639
Others	<u>9,199</u>	<u>8,336</u>
	<u>151,092</u>	<u>161,975</u>

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

Certain other properties in the Mainland China with a total estimated realisable value of HK\$60,205,000 (31 December 2018: HK\$60,349,000), which had been foreclosed and reposessed by the Group pursuant to orders issued by courts in the Mainland China, represent assets held by the Group for resale and have been reported under "Other assets". The relevant loans had been derecognised.

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14. Loss allowance

The tables below provide a reconciliation of the Group's ECL allowances for loans and advances to customers, loan commitments and financial guarantees by stage under HKFRS 9.

	Stage 1 ECL allowance	Stage 2 ECL allowance	Stage 3 ECL allowance	Total ECL allowance
At 1 January 2019	563,307	133,876	363,007	1,060,190
Transfers:				
Transfer from Stage 1 to Stage 2	(9,505)	26,493	-	16,988
Transfer from Stage 1 to Stage 3	(9,491)	-	112,907	103,416
Transfer from Stage 2 to Stage 1	3,561	(10,038)	-	(6,477)
Transfer from Stage 2 to Stage 3	-	(6,749)	21,540	14,791
Transfer from Stage 3 to Stage 2	-	114	(318)	(204)
Transfer from Stage 3 to Stage 1	89	-	(290)	(201)
New financial assets originated, purchased or derecognised during the period	73,310	(4,244)	(11,654)	57,412
Changes in PDs/ LGDs/ EADs/ forward looking assumptions	(89,063)	(14,374)	3,816	(99,621)
Unwinding of discount	24,350	1,956	2,302	28,608
Write-offs	-	-	(160,580)	(160,580)
Foreign exchange and other movements	(318)	(55)	(175)	(548)
At 30 June 2019	556,240	126,979	330,555	1,013,774
In respect of:				
Advances to customers	421,621	120,139	330,555	872,315
Loan commitments and financial guarantees	134,619	6,840	-	141,459
	556,240	126,979	330,555	1,013,774
At 1 January 2018	446,849	200,410	451,599	1,098,858
Transfers:				
Transfer from Stage 1 to Stage 2	(4,415)	15,341	-	10,926
Transfer from Stage 1 to Stage 3	(11,466)	-	239,239	227,773
Transfer from Stage 2 to Stage 1	12,623	(33,604)	-	(20,981)
Transfer from Stage 2 to Stage 3	-	(5,910)	19,979	14,069
Transfer from Stage 3 to Stage 2	-	10	(10)	-
Transfer from Stage 3 to Stage 1	-	-	-	-
New financial assets originated, purchased or derecognised during the period	127,360	(61,577)	(86,014)	(20,231)
Changes in PDs/ LGDs/ EADs/ forward looking assumptions	(7,083)	18,080	90,372	101,369
Unwinding of discount	557	1,482	34	2,073
Write-offs	-	-	(351,930)	(351,930)
Foreign exchange and other movements	(1,118)	(356)	(262)	(1,736)
At 31 December 2018	563,307	133,876	363,007	1,060,190
In respect of:				
Advances to customers	423,650	127,284	362,989	913,923
Loan commitments and financial guarantees	139,657	6,592	18	146,267
	563,307	133,876	363,007	1,060,190

Abbreviations used:

PD	Probability of default
LGD	Loss given default
EAD	Exposures at default
ECL	Expected credit loss

15. Financial assets at fair value through other comprehensive income

	As at 30 Jun 2019	As at 31 Dec 2018
Debt securities:		
- Listed in Hong Kong	18,477,165	17,295,716
- Listed outside Hong Kong	18,808,030	16,638,018
- Unlisted	7,340,034	7,607,463
	<u>44,625,229</u>	<u>41,541,197</u>
Equity securities:		
- Listed in Hong Kong	31,926	30,201
- Unlisted	82,890	83,038
	<u>114,816</u>	<u>113,239</u>
Total	<u>44,740,045</u>	<u>41,654,436</u>
Included within debt securities are:		
- Certificates of deposit held	14,994	429,758
- Treasury bills which are cash equivalents	498,717	2,098,522
- Other treasury bills	7,799,800	6,698,961
- Government bonds	118,222	191,387
- Other debt securities	36,193,496	32,122,569
	<u>44,625,229</u>	<u>41,541,197</u>
Financial assets at fair value through other comprehensive income are analysed by categories of issuers as follows:		
Debt securities:		
- Central governments and central banks	8,416,739	8,988,870
- Public sector entities	257,161	481,574
- Banks and other financial institutions	7,872,788	7,495,726
- Corporate entities	28,078,541	24,575,027
	<u>44,625,229</u>	<u>41,541,197</u>
Equity securities:		
- Corporate entities	114,816	113,239
	<u>44,740,045</u>	<u>41,654,436</u>

16. Financial assets at amortised cost

	As at 30 Jun 2019	As at 31 Dec 2018
Debt securities:		
- Listed in Hong Kong	1,666,635	2,019,488
- Listed outside Hong Kong	3,588,896	3,605,219
- Unlisted	<u>4,556,180</u>	<u>3,512,960</u>
	<u>9,811,711</u>	<u>9,137,667</u>
Less: impairment allowance		
- Stage 1	<u>(5,571)</u>	<u>(4,947)</u>
Total	<u>9,806,140</u>	<u>9,132,720</u>
Included within debt securities are:		
- Certificates of deposit held	1,457,987	1,126,132
- Treasury bills	2,439,607	1,941,080
- Government bonds	522,594	523,450
- Other debt securities	<u>5,391,523</u>	<u>5,547,005</u>
	<u>9,811,711</u>	<u>9,137,667</u>
Financial assets at amortised cost are analysed by categories of issuers as follows:		
- Central governments and central banks	2,962,201	2,464,530
- Banks and other financial institutions	4,243,256	3,998,975
- Corporate entities	2,603,801	2,671,709
- Others	<u>2,453</u>	<u>2,453</u>
	<u>9,811,711</u>	<u>9,137,667</u>

17. Premises and other fixed assets

	Premises	Furniture, equipment and motor vehicles	Total
Six months ended 30 June 2019			
Opening net book amount	2,459,194	463,953	2,923,147
Additions	-	43,642	43,642
Disposals	-	(2,652)	(2,652)
Depreciation charge (Note 7)	(33,369)	(66,395)	(99,764)
Exchange difference	(269)	(172)	(441)
Closing net book amount	<u>2,425,556</u>	<u>438,376</u>	<u>2,863,932</u>
At 30 June 2019			
Cost	2,900,200	1,144,810	4,045,010
Accumulated depreciation	<u>(474,644)</u>	<u>(706,434)</u>	<u>(1,181,078)</u>
Net book amount	<u>2,425,556</u>	<u>438,376</u>	<u>2,863,932</u>
Year ended 31 December 2018			
Opening net book amount	2,523,879	424,373	2,948,252
Additions	-	173,833	173,833
Disposals	-	(2,066)	(2,066)
Depreciation charge	(58,775)	(128,461)	(187,236)
Exchange difference	(5,910)	(3,726)	(9,636)
Closing net book amount	<u>2,459,194</u>	<u>463,953</u>	<u>2,923,147</u>
At 31 December 2018			
Cost	2,900,499	1,155,723	4,056,222
Accumulated depreciation	<u>(441,305)</u>	<u>(691,770)</u>	<u>(1,133,075)</u>
Net book amount	<u>2,459,194</u>	<u>463,953</u>	<u>2,923,147</u>

18. Investment properties

	Six months ended 30 Jun 2019	Year ended 31 Dec 2018
At beginning of the period/ year	1,236,930	1,179,442
Fair value gains on revaluation	-	57,488
	<u>1,236,930</u>	<u>1,236,930</u>

The Group's investment properties were last revalued at 31 December 2018 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.

19. Deposits from customers

	As at 30 Jun 2019	As at 31 Dec 2018
Demand deposits and current accounts	36,826,962	37,594,944
Savings deposits	28,589,808	28,626,731
Time, call and notice deposits	111,873,961	107,688,337
	<u>177,290,731</u>	<u>173,910,012</u>

20. Certificates of deposit issued

	As at 30 Jun 2019	As at 31 Dec 2018
At fair value under fair value hedge (for hedging interest rate risk)	4,819,115	4,422,293
At amortised cost	1,320,621	2,112,783
	<u>6,139,736</u>	<u>6,535,076</u>

The amount that the Group would be contractually required to pay at maturity to the holders of these certificates of deposit is HK\$4 million higher (31 December 2018: HK\$13 million higher) than the above carrying amount.

21. Subordinated notes

	As at 30 Jun 2019	As at 31 Dec 2018
At fair value under fair value hedge (for hedging interest rate risk):		
US\$225,000,000 Subordinated Fixed Rate Notes due 2020 (Note (a))	1,773,571	1,782,046
US\$225,000,000 Subordinated Fixed Rate Notes due 2024 (Note (b))	-	1,760,547
US\$250,000,000 Subordinated Fixed Rate Notes due 2026 (Note (c))	1,947,971	1,906,489
US\$225,000,000 Subordinated Fixed Rate Notes due 2029 (Note (d))	<u>1,814,828</u>	<u>-</u>
	<u>5,536,370</u>	<u>5,449,082</u>

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\$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 were listed on The Stock Exchange of Hong Kong Limited (“SEHK”). The Notes had a maturity date falling on 29 January 2024 and had been fully repaid by the Bank on the optional redemption date of 29 January 2019.
- (c) 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. 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.
- (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 15 January 2019 (the “Notes”), which are listed on the SEHK. The Notes will mature on 15 January 2029 with an optional redemption date falling on 15 January 2024. Interest at 5% 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. 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\$71 million lower (31 December 2018: HK\$32 million higher) than the above carrying amount.

22. Other accounts and accruals

	As at 30 Jun 2019	As at 31 Dec 2018
Lease liabilities	502,364	-
Amounts payable arising from purchase of securities pending for settlement	73,594	1,342,997
Other liabilities and accruals	<u>6,044,811</u>	<u>6,894,102</u>
	<u>6,620,769</u>	<u>8,237,099</u>

23. 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 2019	As at 31 Dec 2018
Deferred income tax assets	<u>103,811</u>	<u>154,354</u>
Deferred income tax liabilities	<u>(17,401)</u>	<u>(17,508)</u>
	As at 30 Jun 2019	As at 31 Dec 2018
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	242,841	251,290
Deferred income tax liabilities:		
- Deferred income tax liabilities to be settled after more than 12 months	<u>(156,431)</u>	<u>(114,444)</u>
	<u>86,410</u>	<u>136,846</u>

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

	Six months Ended 30 Jun 2019	Year ended 31 Dec 2018
At 1 January	136,846	(5,086)
Impact of transition to HKFRS 9	-	74,501
Tax charged to the income statement (Note 10)	(4,192)	(1,605)
Tax (charged)/ credited to equity	(45,926)	73,272
Exchange difference	<u>(318)</u>	<u>(4,236)</u>
At 30 June/ 31 December	<u>86,410</u>	<u>136,846</u>

23. 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	Deferred expenses and others	Total
At 1 January 2018	198,387	57,367	255,754
Credited/ (charged) to the income statement	2,920	(3,148)	(228)
Exchange difference	(2,661)	(1,575)	(4,236)
	<u>198,646</u>	<u>52,644</u>	<u>251,290</u>
At 31 December 2018 and 1 January 2019			
Charged to the income statement	(1,030)	(7,101)	(8,131)
Exchange difference	(97)	(221)	(318)
At 30 June 2019	<u>197,519</u>	<u>45,322</u>	<u>242,841</u>

Deferred income tax liabilities:

	Provisions	Accelerated tax depreciation	Investment properties revaluation	Investment revaluation	Total
At 1 January 2018	12,776	89,250	4,568	79,745	186,339
Charged/ (credited) to the income statement	1,860	1,236	166	(1,885)	1,377
Credited to equity	-	-	-	(73,272)	(73,272)
	<u>14,636</u>	<u>90,486</u>	<u>4,734</u>	<u>4,588</u>	<u>114,444</u>
At 31 December 2018 and 1 January 2019					
Credited to the income statement	(104)	(3,835)	-	-	(3,939)
Charged to equity	-	-	-	45,926	45,926
At 30 June 2019	<u>14,532</u>	<u>86,651</u>	<u>4,734</u>	<u>50,514</u>	<u>156,431</u>

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

	Six months ended 30 Jun 2019	Year ended 31 Dec 2018
Fair value reserves in shareholders' equity:		
-Financial assets at fair value through other comprehensive income	<u>(45,926)</u>	<u>73,272</u>

24. Other reserves

	As at 30 Jun 2019	As at 31 Dec 2018
Consolidation reserve	8,827	8,827
Premises revaluation reserve	233,100	233,100
Investment revaluation reserve	372,507	66,446
Exchange reserve	(227,943)	(209,715)
General reserve	700,254	700,254
Reserve for share-based compensation	13,951	13,108
Retained earnings	<u>19,315,524</u>	<u>18,455,242</u>
	<u>20,416,220</u>	<u>19,267,262</u>
Proposed dividend/ dividend paid included in retained earnings	<u>182,900</u>	<u>452,600</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 2019, the Bank has earmarked a regulatory reserve of HK\$1,152,419,000 (31 December 2018: HK\$1,195,194,000) first against its consolidated general reserve; and for any excess amount, the balance is earmarked against its consolidated retained earnings.

25. 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 2019	As at 31 Dec 2018
Expenditure contracted but not provided for	<u>92,281</u>	<u>89,469</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 2019	As at 31 Dec 2018
Direct credit substitutes	779,743	604,991
Transaction-related contingencies	519,549	507,169
Trade-related contingencies	607,218	966,996
Commitments that are unconditionally cancellable without prior notice	74,202,099	71,049,928
Other commitments with an original maturity of:		
- under 1 year	3,556,955	3,093,217
- 1 year and over	936,956	621,803
	<u>80,602,520</u>	<u>76,844,104</u>
	Credit risk weighted amount	
	As at 30 Jun 2019	As at 31 Dec 2018
Contingent liabilities and commitments	<u>1,790,100</u>	<u>1,548,583</u>

25. 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 2019	As at 31 Dec 2018
Assets pledged with HKMA:		
Trading securities	4,143,591	3,718,420
Financial assets at fair value through other comprehensive income	<u>1,346,474</u>	<u>1,416,143</u>
	<u>5,490,065</u>	<u>5,134,563</u>
Associated liabilities:		
Trading liabilities	<u>6,289,961</u>	<u>5,758,954</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 2019	As at 31 Dec 2018
Assets pledged under repurchase agreements:		
Trading securities	78,520	500,000
Financial assets at fair value through other comprehensive income	1,172,877	1,676,716
Financial assets at amortised cost	<u>188,345</u>	<u>469,964</u>
	<u>1,439,742</u>	<u>2,646,680</u>
Associated liabilities:		
Deposits from banks	1,095,421	1,995,696
Other accounts and accruals	<u>300,000</u>	<u>500,000</u>
	<u>1,395,421</u>	<u>2,495,696</u>

26. 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 2019	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	2,567,506	11,815,115	-	-	-	-	-	14,382,621
Placements with banks maturing between one and twelve months	-	-	4,995,766	2,309,981	-	-	-	7,305,747
Trading securities	-	423,909	2,518,401	3,345,239	20,724	-	-	6,308,273
Financial assets at fair value through profit or loss	-	209,373	119,144	-	-	-	-	328,517
Derivative financial instruments	-	54,319	62,416	181,176	98,254	44,938	-	441,103
Advances and other accounts	7,898,249	22,846,992	12,869,150	16,461,972	39,061,970	40,591,904	1,097,400	140,827,637
Financial assets at fair value through other comprehensive income	-	3,404,573	4,051,018	4,200,549	21,045,345	11,923,744	114,816	44,740,045
Financial assets at amortised cost	-	1,293,252	772,618	2,864,174	4,871,343	-	4,753	9,806,140
Investment in an associate	-	-	-	-	-	-	3,928,136	3,928,136
Investments in jointly controlled entities	-	-	-	-	-	-	100,190	100,190
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	58,252	58,252
Premises and other fixed assets	-	-	-	-	-	-	2,863,932	2,863,932
Investment properties	-	-	-	-	-	-	1,236,930	1,236,930
Current income tax assets	-	-	-	-	-	-	-	-
Deferred income tax assets	-	-	-	-	103,811	-	-	103,811
Total assets	10,465,755	40,047,533	25,388,513	29,363,091	65,201,447	52,560,586	10,216,099	233,243,024
Liabilities								
Deposits from banks	18,836	1,288,177	524,290	-	831,279	-	-	2,662,582
Derivative financial instruments	-	47,062	39,838	167,533	272,604	321,127	-	848,164
Trading liabilities	-	1,550,569	2,413,125	2,316,335	9,932	-	-	6,289,961
Deposits from customers	65,416,771	33,425,279	41,109,760	33,521,058	3,817,863	-	-	177,290,731
Certificates of deposit issued	-	149,955	1,514,719	3,521,093	953,969	-	-	6,139,736
Subordinated notes	-	-	-	1,773,571	3,762,799	-	-	5,536,370
Other accounts and accruals	59,366	1,830,310	591,293	1,153,324	1,130,652	1,388,934	466,890	6,620,769
Current income tax liabilities	-	-	-	322,503	-	-	-	322,503
Deferred income tax liabilities	-	-	-	-	17,401	-	-	17,401
Total liabilities	65,494,973	38,291,352	46,193,025	42,775,417	10,769,499	1,710,061	466,890	205,728,217
Net liquidity gap	(55,029,218)	1,756,181	(20,804,512)	(13,412,326)	54,404,948	50,850,525	9,749,209	27,514,807

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26. Maturity analysis (Continued)

At 31 December 2018	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	2,723,966	13,628,463	-	-	-	-	-	16,352,429
Placements with banks maturing between one and twelve months	-	-	5,043,393	5,198,587	-	-	-	10,241,980
Trading securities	-	44,965	1,839,827	5,715,679	20,713	-	-	7,621,184
Financial assets at fair value through profit or loss	-	208,732	118,751	-	-	-	-	327,483
Derivative financial instruments	-	87,175	48,757	136,351	117,324	337,436	-	727,043
Advances and other accounts	7,711,067	23,504,341	12,279,193	16,566,684	35,399,803	39,711,485	1,014,334	136,186,907
Financial assets at fair value through other comprehensive income	-	2,432,105	1,492,047	8,297,397	20,228,939	9,090,709	113,239	41,654,436
Financial assets at amortised cost	-	379,556	687,729	2,501,537	5,559,164	-	4,734	9,132,720
Investment in an associate	-	-	-	-	-	-	3,620,597	3,620,597
Investments in jointly controlled entities	-	-	-	-	-	-	87,691	87,691
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	58,252	58,252
Premises and other fixed assets	-	-	-	-	-	-	2,923,147	2,923,147
Investment properties	-	-	-	-	-	-	1,236,930	1,236,930
Current income tax assets	-	-	-	1,563	-	-	-	1,563
Deferred income tax assets	-	-	-	-	154,354	-	-	154,354
Total assets	10,435,033	40,285,337	21,509,697	38,417,798	61,480,297	49,139,630	9,870,614	231,138,406
Liabilities								
Deposits from banks	241,545	1,207,258	865,493	660,892	822,368	-	-	3,797,556
Derivative financial instruments	-	131,755	63,923	156,670	108,405	12,520	-	473,273
Trading liabilities	-	1,457,043	2,820,408	1,471,633	9,870	-	-	5,758,954
Deposits from customers	66,137,021	34,826,336	43,779,052	26,268,802	2,784,935	113,866	-	173,910,012
Certificates of deposit issued	-	1,704,221	1,073,732	3,110,082	647,041	-	-	6,535,076
Subordinated notes	-	1,760,548	-	-	3,688,534	-	-	5,449,082
Other accounts and accruals	43,247	3,814,768	572,236	1,245,562	693,732	1,411,277	456,277	8,237,099
Current income tax liabilities	-	-	-	593,997	-	-	-	593,997
Deferred income tax liabilities	-	-	-	-	17,508	-	-	17,508
Total liabilities	66,421,813	44,901,929	49,174,844	33,507,638	8,772,393	1,537,663	456,277	204,772,557
Net liquidity gap	(55,986,780)	(4,616,592)	(27,665,147)	4,910,160	52,707,904	47,601,967	9,414,337	26,365,849

27. 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:

Recurring fair value measurements At 30 Jun 2019	Level 1	Level 2	Level 3	Total
Descriptions				
Financial assets at fair value through profit or loss				
Debt securities	-	6,636,790	-	6,636,790
Derivative financial instruments				
Held for trading	-	303,316	-	303,316
Held for hedging	-	137,787	-	137,787
Financial assets at fair value through other comprehensive income				
Debt securities	-	44,625,229	-	44,625,229
Equity securities	31,926	-	82,890	114,816
Total assets measured at fair value	31,926	51,703,122	82,890	51,817,938
Financial liabilities at fair value through profit or loss				
Held for trading	-	6,289,961	-	6,289,961
Derivative financial instruments				
Held for trading	620	270,522	-	271,142
Held for hedging	-	577,022	-	577,022
Total liabilities measured at fair value	620	7,137,505	-	7,138,125

Financial assets classified as Level 3 assets represent investments in unlisted equity securities. They are stated at fair value which approximates the cost.

For the six months ended 30 June 2019 and the year ended 31 December 2018, 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.

27. Fair value hierarchy (Continued)

Assets and liabilities measured at fair value: (Continued)

Recurring fair value measurements At 31 Dec 2018	Level 1	Level 2	Level 3	Total
Descriptions				
Financial assets at fair value through profit or loss				
Debt securities	-	7,948,667	-	7,948,667
Derivative financial instruments				
Held for trading	-	289,399	-	289,399
Held for hedging	-	437,644	-	437,644
Financial assets at fair value through other comprehensive income				
Debt securities	-	41,541,197	-	41,541,197
Equity securities	30,201	-	83,038	113,239
Total assets measured at fair value	30,201	50,216,907	83,038	50,330,146
Financial liabilities at fair value through profit or loss				
Held for trading	-	5,758,954	-	5,758,954
Derivative financial instruments				
Held for trading	589	351,459	-	352,048
Held for hedging	-	121,225	-	121,225
Total liabilities measured at fair value	589	6,231,638	-	6,232,227

28. 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.

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28. Operating segment reporting (Continued)
For the six months ended 30 June 2019

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/ (expenses)	869,560	620,672	359,078	248,834	(65,645)	-	2,032,499
Non-interest income/ (expenses)	477,896	92,784	(40,949)	69,248	23,284	-	622,263
Total operating income/ (loss)	1,347,456	713,456	318,129	318,082	(42,361)	-	2,654,762
Operating expenses	(794,974)	(253,510)	(83,810)	(251,145)	6,998	-	(1,376,441)
Operating profit/ (loss) before credit impairment (losses)/ written back	552,482	459,946	234,319	66,937	(35,363)	-	1,278,321
Credit impairment (losses)/ written back	(116,498)	36,009	(5,085)	(3,484)	(2,302)	-	(91,360)
Operating profit/ (loss) after credit impairment (losses)/ written back	435,984	495,955	229,234	63,453	(37,665)	-	1,186,961
Net (loss)/ gain on disposal of other fixed assets	(2,545)	-	-	24	-	-	(2,521)
Net loss on disposal of financial assets at fair value through other comprehensive income	-	-	(24)	-	-	-	(24)
Impairment loss on investment in an associate	-	-	-	(70,000)	-	-	(70,000)
Share of results of an associate	-	-	-	410,860	-	-	410,860
Share of results of jointly controlled entities	-	-	-	-	12,499	-	12,499
Profit/ (loss) before taxation	433,439	495,955	229,210	404,337	(25,166)	-	1,537,775
Taxation (expenses)/ credit	(71,554)	(81,758)	(37,806)	(3,617)	517	-	(194,218)
Profit/ (loss) after taxation	361,885	414,197	191,404	400,720	(24,649)	-	1,343,557
For the six months ended 30 June 2019							
Depreciation and amortisation	40,258	8,519	3,270	31,927	106,670	-	190,644
As at 30 June 2019							
Segment assets	52,193,633	64,404,373	77,320,631	36,892,883	7,373,591	(4,942,087)	233,243,024
Segment liabilities	105,564,729	41,707,960	16,620,148	28,825,546	17,951,921	(4,942,087)	205,728,217

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28. Operating segment reporting (Continued)

For the six months ended 30 June 2018

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income	866,189	612,809	349,154	282,049	622	-	2,110,823
Non-interest income/ (expenses)	<u>501,859</u>	<u>104,784</u>	<u>(59,096)</u>	<u>77,244</u>	<u>20,379</u>	<u>-</u>	<u>645,170</u>
Total operating income	1,368,048	717,593	290,058	359,293	21,001	-	2,755,993
Operating expenses	<u>(744,645)</u>	<u>(226,459)</u>	<u>(74,542)</u>	<u>(244,488)</u>	<u>3,908</u>	<u>-</u>	<u>(1,286,226)</u>
Operating profit before credit impairment (losses)/ written back	623,403	491,134	215,516	114,805	24,909	-	1,469,767
Credit impairment (losses)/ written back	<u>(106,014)</u>	<u>58,541</u>	<u>263</u>	<u>8,768</u>	<u>257</u>	<u>-</u>	<u>(38,185)</u>
Operating profit after credit impairment (losses)/ written back	517,389	549,675	215,779	123,573	25,166	-	1,431,582
Net loss on disposal of other fixed assets	(218)	-	-	(49)	(1)	-	(268)
Net gain on disposal of financial assets at fair value through other comprehensive income	-	-	665	-	-	-	665
Impairment loss on investment in an associate	-	-	-	(403,000)	-	-	(403,000)
Share of results of an associate	-	-	-	409,941	-	-	409,941
Share of results of jointly controlled entities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,386</u>	<u>-</u>	<u>12,386</u>
Profit before taxation	517,171	549,675	216,444	130,465	37,551	-	1,451,306
Taxation (expenses)/ credit	<u>(85,332)</u>	<u>(90,987)</u>	<u>(35,749)</u>	<u>(23,144)</u>	<u>1,731</u>	<u>-</u>	<u>(233,481)</u>
Profit after taxation	<u>431,839</u>	<u>458,688</u>	<u>180,695</u>	<u>107,321</u>	<u>39,282</u>	<u>-</u>	<u>1,217,825</u>
For the six months ended 30 June 2018							
Depreciation and amortisation	35,050	7,403	2,719	20,855	26,689	-	92,716
As at 31 December 2018							
Segment assets	51,024,761	62,888,081	79,191,071	36,286,080	6,297,791	(4,549,378)	231,138,406
Segment liabilities	102,006,201	41,070,943	17,714,209	28,405,278	20,125,304	(4,549,378)	204,772,557

28. 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 2019				
Operating income	2,445,865	208,897	-	2,654,762
Profit before taxation	1,435,483	102,292	-	1,537,775
As at 30 June 2019				
Total assets	214,827,863	22,117,823	(3,702,662)	233,243,024
Total liabilities	190,190,401	19,240,478	(3,702,662)	205,728,217
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	84,139,629	3,578,686	(93,707)	87,624,608
	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the six months ended 30 June 2018				
Operating income	2,518,864	237,129	-	2,755,993
Profit before taxation	1,315,737	135,569	-	1,451,306
As at 31 December 2018				
Total assets	212,177,593	22,295,149	(3,274,336)	231,138,406
Total liabilities	188,731,012	19,315,881	(3,274,336)	204,772,557
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	82,738,028	3,372,813	(101,493)	86,009,348

29. 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 2019 and the corresponding comparative balances.

The Group did not have any structural foreign exchange position as at 30 June 2019 and 31 December 2018. The net option position is calculated in the basis of the delta-weighted position of all foreign currency option contracts.

	At 30 Jun 2019				
	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions					
Spot assets	63,901	16,600	11,287	7,782	99,570
Spot liabilities	(47,448)	(15,356)	(11,551)	(9,263)	(83,618)
Forward purchases	30,303	17,535	-	4,641	52,479
Forward sales	(45,958)	(18,499)	-	(3,175)	(67,632)
Net options position	-	-	-	-	-
Net long/ (short) position	<u>798</u>	<u>280</u>	<u>(264)</u>	<u>(15)</u>	<u>799</u>

	At 31 Dec 2018				
	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign Currencies
Equivalent in HK\$ millions					
Spot assets	60,969	14,883	10,894	5,691	92,437
Spot liabilities	(43,893)	(14,226)	(11,539)	(8,423)	(78,081)
Forward purchases	29,060	13,612	1	7,359	50,032
Forward sales	(45,568)	(13,760)	(160)	(4,639)	(64,127)
Net options position	(34)	-	-	34	-
Net long/ (short) position	<u>534</u>	<u>509</u>	<u>(804)</u>	<u>22</u>	<u>261</u>

30. 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 2019		As at 31 Dec 2018	
	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	4,805,720	66.7	5,411,554	69.4
- Property investment	15,628,726	96.9	15,930,681	98.7
- Financial concerns	5,280,110	2.9	5,229,101	3.2
- Stockbrokers	1,493,194	33.3	1,711,512	28.2
- Wholesale and retail trade	6,624,035	90.2	6,584,127	89.2
- Manufacturing	1,639,606	75.3	1,702,636	75.0
- Transport and transport equipment	3,665,713	71.5	3,691,151	73.1
- Recreational activities	100,431	99.8	103,057	99.8
- Information technology	50,147	73.5	70,890	82.3
- Others	3,676,057	82.8	3,537,199	82.9
	42,963,739	74.5	43,971,908	75.2
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	604,050	100.0	632,804	100.0
- Loans for the purchase of other residential properties	28,466,088	100.0	26,609,223	100.0
- Credit card advances	3,675,620	-	3,721,632	-
- Others	12,966,405	51.4	12,927,451	51.3
	45,712,163	78.2	43,891,110	77.2
Loans for use in Hong Kong	88,675,902	76.4	87,863,018	76.2
Trade finance (Note (1))	8,587,679	62.1	9,265,660	62.8
Loans for use outside Hong Kong (Note (2))	35,124,137	63.5	31,501,601	67.8
	132,387,718	72.0	128,630,279	73.2

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\$285,570,000 (31 December 2018: HK\$306,245,000) 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.

30. 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 2019				
	Outstanding balance	Impaired loans (Stage 3)	Gross advances overdue for over 3 months	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property investment	15,628,726	34,792	114,059	3,053	73,474
Individuals					
- Loans for the purchase of other residential properties	28,466,088	19,775	18,530	1,347	21,259
Loans for use outside Hong Kong	<u>35,124,137</u>	<u>198,725</u>	<u>187,865</u>	<u>79,330</u>	<u>118,105</u>
	At 31 Dec 2018				
	Outstanding balance	Impaired loans (Stage 3)	Gross advances overdue for over 3 months	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property investment	15,930,681	46,826	39,278	3,417	89,814
Individuals					
- Loans for the purchase of other residential properties	26,609,223	27,406	14,575	1,807	18,520
Loans for use outside Hong Kong	<u>31,501,601</u>	<u>220,458</u>	<u>182,600</u>	<u>90,693</u>	<u>122,411</u>

30. 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 2019	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)	9,366,428	291,822	9,658,250
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,629,426	317,654	1,947,080
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	13,979,350	1,352,217	15,331,567
4. Other entities of central government not reported in item 1 above	2,268,521	61,789	2,330,310
5. Other entities of local governments not reported in item 2 above	591,574	6,145	597,719
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	12,003,089	367,804	12,370,893
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	<u>1,293,039</u>	<u>36,220</u>	<u>1,329,259</u>
	<u>41,131,427</u>	<u>2,433,651</u>	<u>43,565,078</u>
Total assets of the Bank and its Mainland subsidiary bank after provision	<u>215,330,270</u>		
On-balance sheet exposures as percentage of total assets	<u>19.10%</u>		

Note:

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

30. Additional analysis on claims and exposures (Continued)

(b) Mainland activities exposures (Continued)

As at 31 December 2018	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1. Central government, central government-owned entities and their subsidiaries and JVs	9,982,126	305,735	10,287,861
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,504,724	371,992	1,876,716
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	13,135,384	1,046,751	14,182,135
4. Other entities of central government not reported in item 1 above	1,154,781	9,949	1,164,730
5. Other entities of local governments not reported in item 2 above	643,794	6,616	650,410
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	9,618,828	359,654	9,978,482
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	1,000,366	-	1,000,366
	<u>37,040,003</u>	<u>2,100,697</u>	<u>39,140,700</u>
Total assets of the Bank and its Mainland subsidiary bank after provision	<u>213,334,791</u>		
On-balance sheet exposures as percentage of total assets	<u>17.36%</u>		

30. 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 2019

	Gross advances to customers	Impaired advances to customers (Stage 3)	Overdue advances to customers	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Hong Kong	109,602,814	714,176	479,843	303,095	479,539
China	7,229,508	69,380	95,118	14,127	40,051
Macau	14,041,844	57,074	57,074	13,333	15,761
Others	1,513,552	2,956	11,100	-	6,409
	<u>132,387,718</u>	<u>843,586</u>	<u>643,135</u>	<u>330,555</u>	<u>541,760</u>

As at 31 December 2018

	Gross advances to customers	Impaired advances to customers (Stage 3)	Overdue advances to customers	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Hong Kong	105,025,978	832,748	441,976	332,656	479,963
China	7,442,961	75,691	66,817	12,147	46,637
Macau	14,459,024	59,521	59,521	17,867	16,860
Others	1,702,316	2,206	12,795	319	7,474
	<u>128,630,279</u>	<u>970,166</u>	<u>581,109</u>	<u>362,989</u>	<u>550,934</u>

30. 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 2019 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	7,109	16,038	9,700	131,458	164,305
- of which: Hong Kong	6,059	13,484	9,448	115,461	144,452
Developing Asia and Pacific	26,886	2,159	908	14,977	44,930
- of which: Mainland China	20,480	2,079	496	12,229	35,284

At 31 December 2018 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	6,179	17,390	8,324	125,961	157,854
- of which: Hong Kong	4,874	15,327	8,034	109,858	138,093
Developing Asia and Pacific	30,328	1,651	976	14,380	47,335
- of which: Mainland China	24,160	1,575	606	12,165	38,506

31. Capital adequacy ratio

	As at 30 Jun 2019	As at 31 Dec 2018
Capital adequacy ratio		
- Common Equity Tier 1	13.3%	13.1%
- Tier 1	13.9%	13.7%
- Total	<u>17.9%</u>	<u>18.1%</u>

The capital adequacy ratio as at 30 June 2019 and 31 December 2018 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

32. Liquidity maintenance ratio

	Six months ended 30 Jun 2019	Six months ended 30 Jun 2018	Year ended 31 Dec 2018
Liquidity maintenance ratio	<u>45.7%</u>	<u>44.0%</u>	<u>45.6%</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. The Group has adopted the Liquidity Maintenance Ratio ("LMR") as a regulatory standard specified by the HKMA for reporting the Group's liquidity position. During the period, the Group had maintained a sufficiently high LMR well above the statutory minimum of 25%.

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 2019	Six months ended 30 Jun 2018
Net interest income/ operating income	76.6%	76.6%
Cost to income ratio	51.8%	46.7%
Return on average total assets (annualised)	1.2%	1.3%
Return on average shareholders' funds (annualised)	10.7%	11.3%
Net interest margin	1.89%	2.08%
	As at 30 Jun 2019	As at 31 Dec 2018
Loan to deposit ratio	72.2%	71.3%

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

We adopted a somewhat cautious view on the outlook for 2019 at the beginning of the year, after considering a number of uncertainties and the outlook for a slower growth in the local economy. Economic and business conditions slowed notably in the first half of 2019, due to the impact of the trade war between the US and China and sluggish domestic demand, and local exports/imports and investment expenditures contracted notably when compared with the first half of 2018. Domestic GDP growth in Hong Kong was only 0.6% in the first quarter of the year, and 0.5% in the second quarter. Second quarter real GDP of Hong Kong declined by 0.4% when compared with the first quarter. The labour market was steady, with the domestic unemployment rate remaining low at 2.8%. Consumer price inflation, due to the increases in food prices and wages, and the reduction of certain government rates concession, went up somewhat in the second quarter, rising from 2.2% in the first quarter to 3.0% in the second quarter. Mainland economic growth also slowed modestly, declining from an annualised rate of 6.4% in the first quarter of the year, to 6.2% in the second. The US Federal Reserve maintained rates unchanged in the first half of the year, although had subsequently cut the Fed Funds rate by 0.25% at the end of July, the first rate cut since 2008. Meanwhile, Hong Kong rates have been volatile, with HIBOR moving up sharply towards the mid-year after having remained much below LIBOR for the early part of the year.

Despite the less favourable market environment, the Group reported growth in profit of 10.3% to HK\$1,344m, which was mainly attributable to a lower impairment charge on our investment in Bank of Chongqing. Underlying business performance weakened, both due to a squeeze in net interest margin as funding costs increased faster than the increase in our asset yields partly caused by the lower HIBOR during the first quarter this year, in addition to the softening in LIBOR during the first half, as well as substantially higher loan impairment charges for the period.

For the first half of the year, a dividend of HK\$2.95 per share was declared.

BUSINESS AND FINANCIAL REVIEW

The core performance of our banking business in the first half of the year was weaker than in the previous year. Both net interest income and net fee and commission income were down modestly. The reduction in net interest income of around 3.7% was due mainly to funding costs remaining relatively high, whilst the reductions in market interest rates, particularly in Hong Kong dollars during first quarter, put pressure on our asset yields, leading to a contraction in net interest margin of 19bps to 1.89% compared with 2.08% in the first half of 2018. Slow growth in loan assets of 2.9% in the period was insufficient to offset the drop in net interest margin, thus resulting in lower overall net interest income for the period.

Net fee and commission income was down by 6.6% versus the same period last year. However, this was a relatively good result bearing in mind the much weaker conditions in local equity markets in the first half of the current year compared with 2018, when wealth management related revenues had contributed strongly to fee income. Wealth management, bancassurance and foreign exchange income all performed well despite the difficult market conditions. With the higher net operating and investment trading income generated by our insurance and investment activities, total operating income in the period was down by 3.7% when compared with first half 2018. Operating expenses increased by 7.0%, leading to a deterioration in our cost income ratio from 46.7% to 51.8%. Part of the increase in costs was related to investments in technology, which we see as an important part of the banking business going forward.

The performance of our wholly-owned banking subsidiaries in Macau and China both reported weaker performance in the first half of the year. The lower contribution from Macau was driven by similar reasons to that in Hong Kong – a contracting net interest margin due to the interest rate environment, as well as weak loan volumes – in the case of our Macau subsidiary, a slight contraction. The performance of our China subsidiary was weaker mainly due to modest loan impairment charges in the first half of the year as compared to write-backs of impairment charges in the same period in 2018. Our associate company, Bank of Chongqing (“BOCQ”), reported slightly higher profit at the operating level, although we again made an impairment charge against its Value in Use (see below).

BUSINESS AND FINANCIAL REVIEW (Continued)

Credit quality remained generally good during the first half of the year, with a net impairment charge of HK\$91 million. Whilst this is a substantial increase over the net impairment charge for the same period in 2018 of only HK\$38 million (partly brought by a meaningful write-back of impairment provisions as a result of higher realisation value of some non-performing loan collateral properties sold), it should be noted that this represents a very low base for comparison purposes, and that we had already made a higher credit impairment charge during the second half of 2018 to reflect our cautious outlook for 2019 and to maintain sufficient credit impairment provisions at the end of 2018 to cover expected credit losses. Asset quality was generally good across both our retail and commercial banking businesses, although we recorded a lower write-back of impairment provisions in our commercial banking business in the period. We will continue to monitor closely the economic and business conditions given the current uncertain outlook.

In addition, following a periodic review of the Value in Use of our investment in BOCQ, we again made an impairment charge against the value of this investment, in the amount of HK\$70 million, in the period.

The Group generated a return on assets of 1.2% and ROE of 10.7% for the period.

As at 30 June 2019, Dah Sing Bank's consolidated Common Equity Tier 1 ratio and total consolidated capital adequacy ratio were 13.3% and 17.9% respectively, similar to the levels at the end of 2018.

PROSPECTS

Conditions in our core markets of Hong Kong, Macau and Mainland China have all weakened in the first half of 2019. More broadly, global economic conditions have also weakened and the outlook is more uncertain than it was last year. Expectations of interest rate rises in the US have changed to interest rate cuts, reflecting the weaker outlook for the US economy. The trade war between the US and China, despite optimistic predictions earlier in the year, has yet to be resolved.

Interest rates, particularly for Hong Kong Dollars and foreign exchange markets have increased in volatility into the middle of the year, and do not yet show signs of stabilization. In view of the slowing economy and other uncertainties, business is likely to slow for customers in certain trade and industry sectors. Last but not least, the recent events in Hong Kong may contribute to a weaker local economic outlook in the second half of the year.

All of this makes us more cautious for the second half of the year. Whilst at this stage we expect that our core businesses will remain relatively stable, at present the outlook remains uncertain.

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 2019 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, 27 August 2019