Dah Sing Bank, Limited

ANNOUNCEMENT OF 2018 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 2018.

UNAUDITED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June

HK$'000	Note	**2018**	2017	Variance %
Interest income		**3,159,713**	2,764,150	
Interest expense		**(1,048,890)**	(884,097)	
Net interest income	3	**2,110,823**	1,880,053	12.3
Fee and commission income		**778,574**	582,718	
Fee and commission expense		**(161,505)**	(125,022)	
Net fee and commission income	4	**617,069**	457,696	34.8
Net trading (loss)/ income	5	**(10,770)**	31,940	
Other operating income	6	**38,871**	36,697	
Operating income		**2,755,993**	2,406,386	14.5
Operating expenses	7	**(1,286,226)**	(1,231,019)	4.5
Operating profit before impairment losses		**1,469,767**	1,175,367	25.0
Credit impairment losses	8	**(38,185)**	(167,275)	(77.2)
Operating profit before gains and losses on certain investments and fixed assets		**1,431,582**	1,008,092	42.0
Net loss on disposal of other fixed assets		**(268)**	(106)	
Net gain on disposal of financial assets at fair value through other comprehensive income		**665**	-	
Net gain on disposal of available-for-sale securities		**-**	23,365	
Impairment loss on investment in an associate	9	**(403,000)**	-	
Share of results of an associate		**409,941**	373,038	
Share of results of jointly controlled entities		**12,386**	9,198	
Profit before taxation		**1,451,306**	1,413,587	2.7
Taxation	10	**(233,481)**	(177,249)	
Profit for the period		**1,217,825**	1,236,338	(1.5)
Dividend				
Interim dividend		**182,900**	161,200	

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

HK$'000	**2018**	2017
Profit for the period	**1,217,825**	1,236,338
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	**(288,526)**	-
Net change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	**(5,932)**	-
Net gain on available-for-sale securities recognised in equity	**-**	232,948
Net gain realised and transferred to income statement upon:		
- Disposal of available-for-sale securities	**-**	(23,365)
- Disposal of financial assets at fair value through other comprehensive income	**(665)**	-
Deferred income tax related to the above	**42,106**	(41,571)
	(253,017)	168,012
Exchange differences arising on translation of the financial statements of foreign entities	**(93,906)**	166,116
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	**791**	-
Other comprehensive (loss)/ income for the period, net of tax	**(346,132)**	334,128
Total comprehensive income for the period, net of tax	**871,693**	1,570,466

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK$'000	Note	**As at 30 Jun 2018**	As at 31 Dec 2017
ASSETS			
Cash and balances with banks		**12,880,886**	17,343,673
Placements with banks maturing between one and twelve months		**9,894,998**	11,856,241
Trading securities	11	**5,356,733**	8,837,554
Financial assets at fair value through profit or loss	11	**327,918**	353,347
Derivative financial instruments	12	**1,019,143**	897,967
Advances and other accounts	13	**130,264,633**	126,736,970
Financial assets at fair value through other comprehensive income	15	**38,138,268**	-
Available-for-sale securities	15	**-**	38,223,189
Financial assets at amortised cost	16	**10,745,944**	-
Held-to-maturity securities	16	**-**	6,233,704
Investment in an associate	9	**3,726,684**	4,134,651
Investments in jointly controlled entities		**93,543**	81,157
Goodwill		**811,690**	811,690
Intangible assets		**58,252**	58,252
Premises and other fixed assets	17	**2,913,999**	2,948,252
Investment properties	18	**1,179,442**	1,179,442
Current income tax assets		**-**	137
Deferred income tax assets	22	**124,505**	81,492
Total assets		**217,536,638**	219,777,718
LIABILITIES			
Deposits from banks		**2,208,517**	2,277,391
Derivative financial instruments	12	**575,070**	682,784
Trading liabilities		**5,343,254**	8,668,508
Deposits from customers	19	**164,184,119**	162,726,496
Certificates of deposit issued	20	**6,680,490**	7,183,706
Subordinated notes	21	**5,438,794**	5,487,366
Other accounts and accruals		**6,691,084**	6,096,111
Current income tax liabilities		**450,737**	451,650
Deferred income tax liabilities	22	**16,215**	86,578
Total liabilities		**191,588,280**	193,660,590
EQUITY			
Share capital		**6,200,000**	6,200,000
Other reserves (including retained earnings)	23	**18,849,771**	19,018,541
Shareholders' funds		**25,049,771**	25,218,541
Additional equity instruments		**898,587**	898,587
Total equity		**25,948,358**	26,117,128
Total equity and liabilities		**217,536,638**	219,777,718

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

HK$'000	Attributable to the Shareholders of the Bank: Share capital	Other reserves	Retained earnings	Additional equity instruments	Total equity
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 instructments	**-**	**-**	**(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**

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

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June

HK$'000	**2018**	2017
Cash flows from operating activities		
Cash absorbed by operations	**(4,741,216)**	(2,248,393)
Interest paid on certificates of deposit issued	**(110,191)**	(58,316)
Hong Kong profits tax paid	**(232,015)**	(78,918)
Overseas tax refunded	**1**	1
Net cash used in operating activities	**(5,083,421)**	(2,385,626)
Cash flows from investing activities		
Purchase of premises, investment properties and other fixed assets	**(61,096)**	(65,550)
Proceeds from disposal of other fixed assets	**2**	10
Net cash used in investing activities	**(61,094)**	(65,540)
Cash flows from financing activities		
Distribution payment of additional equity instrument	**(18,182)**	-
Repayment of subordinated notes	**-**	(1,660,074)
Interest paid on subordinated notes and debt securities issued	**(146,309)**	(185,780)
Dividend paid on ordinary shares	**(434,000)**	(390,600)
Net cash used in financing activities	**(598,491)**	(2,236,454)
Net decrease in cash and cash equivalents	**(5,743,006)**	(4,687,620)
Cash and cash equivalents at beginning of the period	**19,545,608**	19,621,212
Effect of foreign exchange rate changes	**(30,177)**	98,623
Cash and cash equivalents at end of the period	**13,772,425**	15,032,215

Analysis of the balance of cash and cash equivalents:

Cash and balances with banks	**1,877,604**	1,171,185
Money at call and short notice with an original maturity within three months	**7,841,487**	8,506,250
Treasury bills included in financial assets at fair value through profit or loss	**838,790**	1,776,607
Treasury bills included in financial assets at fair value through other comprehensive income	**598,210**	-
Treasury bills included in available-for-sale securities	**-**	299,965
Placements with banks with an original maturity within three months	**2,616,334**	3,278,208
	13,772,425	15,032,215

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 2018 interim consolidated financial statements does not constitute statutory financial statements.

Certain financial information in the 2018 interim consolidated financial statements is extracted from the statutory financial statements for the year ended 31 December 2017 (the "2017 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 2017 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 2018 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 2017.

(a) New and amended standards adopted

A number of new standards and amendments to standards and interpretations became effective for the current reporting. None of these has a significant effect on the consolidated financial statements of the Group, except for HKFRS 9, "Financial instruments".

The Group has adopted HKFRS 9 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to HKFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of HKFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments: Disclosures".

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

The measurement category and the carrying amount of financial assets and liabilities in accordance with HKAS 39 on 31 December 2017 and HKFRS 9 at the opening of 1 January 2018 are compared as follows:

HK$'000	HKAS 39		HKFRS 9	
Financial assets	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Balances and placements with banks	Amortised cost (Loans and receivables)	29,199,914	Amortised cost	29,195,899
Advances and other accounts	Amortised cost (Loans and receivables)	126,736,970	Amortised cost	126,442,891
Trading securities	Fair value through profit or loss (Held for trading)	8,837,554	Fair value through profit or loss	8,837,554
Investment securities	Fair value through other comprehensive income (Available-for-sale)	38,223,189	Fair value through other comprehensive income	33,581,014
	Amortised cost (Held-to-maturity)	6,233,704	Amortised cost	10,910,299
	Fair value through profit or loss (Designated)	28,429	Fair value through profit or loss (Categorised by designation)	28,429
	Fair value through profit or loss (With embedded derivative)	324,918	Fair value through profit or loss (Categorised based on requirements of HKFRS 9)	324,918

There were no changes to the classification and measurement of financial liabilities.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The adoption of expected credit loss approach resulted in an increase in impairment allowances required to be provided on the Group's financial assets.

Set out below are disclosures relating to the impact, net of tax, of transition to HKFRS 9 on the statement of financial position of the Group.

HK$'000	Closing balance under HKAS 39 at 31 December 2017	Recognition of expected credit loss	Reclassification from available-for-sale securities to financial assets at fair value through other comprehensive income	Reclassification from available-for-sale and held-to-maturity securities to financial assets at amortised cost	Recognition of expected credit loss by an associate	Reclassification of investments by an associate	Opening balance under HKFRS 9 at 1 January 2018
Cash and balances with banks	17,343,673	(731)	-	-	-	-	17,342,942
Placement with banks maturing between one and twelve months	11,856,241	(3,284)	-	-	-	-	11,852,957
Advances and other accounts	126,736,970	(294,079)	-	-	-	-	126,442,891
Financial assets at fair value through other comprehensive income	-	-	33,581,014	-	-	-	33,581,014
Available-for-sale securities	38,223,189	-	(33,581,014)	(4,642,175)	-	-	-
Financial assets at amortised cost	-	(5,632)	-	10,915,931	-	-	10,910,299
Held-to-maturity securities	6,233,704	-	-	(6,233,704)	-	-	-
Investment in an associate	4,134,651	-	-	-	(259,211)	167	3,875,607
Deferred income tax assets	81,492	81,530	-	-	-	-	163,022
Other accounts and accruals	6,096,111	140,456	-	-	-	-	6,236,567
Deferred income tax liabilities	86,578	-	-	7,028	-	-	93,606
Retained earnings	17,649,790	(380,254)	-	-	(284,490)	-	16,985,046
Investment revaluation reserve	318,224	17,602	-	33,024	25,279	167	394,296

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2018:

HK$'000

Measurement category	Impairment allowance under HKAS 39	Remeasurement	Impairment allowance under HKFRS 9
Cash and balances with banks	-	731	731
Placements with banks maturing between one and twelve months	-	3,284	3,284
Financial assets at fair value through other comprehensive income	-	17,602	17,602
Financial assets at amortised cost	-	5,632	5,632
Trade bills	14,229	(11,945)	2,284
Advances to customers	659,046	299,354	958,400
Accrued interest and other accounts	11,431	6,670	18,101
Loan commitments and financial guarantees	-	140,456	140,456
Total	684,706	461,784	1,146,490

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

(1) Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Group's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in section (ii) below. Interest income from these financial assets is calculated using the effective interest rate method.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is calculated using the effective interest rate method.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented in the income statement in the period in which it arises. Interest income from these financial assets is calculated using the effective interest rate method.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

(1) Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the income statement.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

(1) Financial assets (Continued)

(ii) Impairment

HKFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their expected credit losses (“ECL”) measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the ECL, trade receivables has been grouped based on shared credit risk characteristics and the days past due.

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

(1) Financial assets (Continued)

(iii) Modification of loans (Continued)

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a “new”asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as “pass through” transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

(1) Financial assets (Continued)

(iv) Derecognition other than on a modification (Continued)

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

(2) Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are recognised to adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

(3) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of HKFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(4) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(a) New and amended standards adopted (Continued)

(4) Derivatives and hedging activities (Continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

HKFRS 15, "Revenue from contracts with customers"

The HKICPA has issued HKFRS 15 as the new standard for the recognition of revenue, which has become effective for financial years commencing on or after 1 January 2018. This replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The adoption of HKFRS 15 does not have any material impact on the Group's consolidated financial statements.

(b) New and amended standards and interpretations not yet adopted

HKFRS 16, "Leases"

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

The accounting for lessors will not significantly change.

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

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

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(b) New and amended standards and interpretations not yet adopted (Continued)

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

The interim 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 21 August 2018.

These interim consolidated financial statements have not been audited.

3. Net interest income

For the six months ended 30 June

	2018	2017
Interest income		
Cash and balances with banks	**252,372**	181,165
Investments in securities	**654,561**	486,552
Advances and other accounts	**2,252,780**	2,096,433
	3,159,713	2,764,150
Interest expense		
Deposits from banks/ Deposits from customers	**814,971**	692,616
Certificates of deposit issued	**59,392**	52,795
Subordinated notes	**133,910**	119,113
Others	**40,617**	19,573
	1,048,890	884,097
Included within interest income		
Interest income on financial assets not at fair value through profit or loss	**3,121,317**	2,742,259
Interest income on impaired financial assets	**10,090**	-
Included within interest expense		
Interest expenses on financial liabilities not at fair value through profit or loss	**1,014,982**	864,224

4. Net fee and commission income

For the six months ended 30 June

	2018	2017
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	**92,095**	77,261
- Trade finance	**48,355**	38,312
- Credit card	**195,288**	155,403
Other fee and commission income		
- Securities brokerage	**82,072**	49,258
- Insurance distribution and others	**160,400**	71,072
- Retail investment and wealth management services	**136,524**	118,825
- Bank services and handling fees	**36,356**	36,801
- Other fees	**27,484**	35,786
	778,574	582,718
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	**151,257**	115,022
- Other fees paid	**10,248**	10,000
	161,505	125,022

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 (loss)/ income

For the six months ended 30 June

	2018	2017
Net (loss)/ gain arising from dealing in foreign currencies	**(27,322)**	11,283
Net gain on trading securities	**8,391**	2,792
Net gain from derivatives entered into for trading purpose	**1,343**	11,798
Net (loss)/ gain arising from financial instruments subject to fair value hedge	**(2,054)**	4,856
Net gain on financial assets at fair value through profit or loss	**8,872**	1,211
	(10,770)	31,940

6. Other operating income

For the six months ended 30 June

	2018	2017
Dividend income from investments in equity instruments at fair value through other comprehensive income		
- Listed investments	**1,322**	-
- Unlisted investments	**4,205**	-
Dividend income from available-for-sale securities		
- Listed investments	**-**	4,440
- Unlisted investments	**-**	4,545
Gross rental income from investment properties	**15,259**	13,210
Other rental income	**6,649**	6,724
Others	**11,436**	7,778
	38,871	36,697

7. Operating expenses

For the six months ended 30 June

	2018	2017
Employee compensation and benefit expenses (including directors' remuneration)	**876,833**	824,798
Premises and other fixed assets expenses, excluding depreciation	**163,077**	158,758
Depreciation (Note 17)	**92,716**	89,021
Advertising and promotion costs	**41,548**	35,336
Printing, stationery and postage	**23,710**	24,400
Amortisation expenses of intangible assets	**-**	194
Others	**88,342**	98,512
	1,286,226	1,231,019

8. Credit impairment losses

For the six months ended 30 June

2018

	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Balances and placements with banks	**(1,357)**	**-**	**-**	**-**	**(1,357)**
Debt instruments at fair value through other comprehensive income	**1,139**	**-**	**-**	**-**	**1,139**
Debt instruments at amortised cost	**(473)**	**-**	**-**	**-**	**(473)**
Advances to customers	**3,979**	**(6,765)**	**55,238**	**-**	**52,452**
Trade bills	**146**	**(170)**	**-**	**-**	**(24)**
Accrued interest and other accounts	**(6)**	**363**	**11**	**(432)**	**(64)**
Loan commitments and financial guarantees	**(11,575)**	**(1,913)**	**-**	**-**	**(13,488)**
Total	**(8,147)**	**(8,485)**	**55,249**	**(432)**	**38,185**

2017

Net charge of impairment losses on advances and other accounts	
- Individually assessed	17,952
- Collectively assessed	149,323
	167,275
Of which	
- new and additional allowances (including amounts directly written off in the period)	273,667
- releases	(86,027)
- recoveries	(20,365)
	167,275

9. Impairment loss on investment in an associate

Since the Group's initial investment in Bank of Chongqing ("BOCQ") in 2007, the investment in BOCQ (the "Investment") has been accounted for as an associate, with the Group's pro-rata share of BOCQ's earnings being reported in the consolidated financial statements of the Group as share of results of an associate. This means that the Investment is held at a carrying amount equivalent to the cost of the Investment, plus the share of BOCQ's earnings, less dividends received by the Group, and adjusted for currency changes etc. The value of the Investment is reported in the financial statements of the Group as "Investment in an associate".

According to Hong Kong Accounting Standard 36 "Impairment of assets", the value of the Investment is subject to regular impairment testing. 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. If the VIU remains above the carrying amount, then no impairment is recognised. If, however, the VIU falls below the carrying amount, then an impairment charge, which is equal to the difference in value between the VIU and the carrying amount, has to be recognised. The Group has performed impairment test and assessment of VIU on the Investment on a regular basis in the past.

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 to projecting BOCQ's future performance. Significant management judgement is required in estimating the future cash flows arising from BOCQ.

In the prior years and the period up to 30 June 2017, the VIU had been above the carrying value, and hence no impairment charge had been made. However, based on the assessment conducted for the position as at 31 December 2017, the recoverable amount, as determined by the VIU calculation and after considering all relevant factors and valuation assumptions, was lower than the carrying amount, and an impairment charge at HK$815 million had been recognised, which had been included in the consolidated results of the Group for the year ended 31 December 2017.

The latest impairment test performed by the Group for the position as at 30 June 2018 concludes that the recoverable amount, based on the VIU calculation, is assessed as lower than the carrying amount by HK$403 million. As a result, the carrying amount of the Group's investment in BOCQ at 30 June 2018 has been written down to HK$3,726.7 million, which is the recoverable amount at 30 June 2018 assessed by the Group. The original cost of the Investment is HK$1,213 million.

The impairment charge recognised on the Investment does not have any impact to the Bank's capital adequacy. 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, 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% (2017: 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

	2018	2017
Current income tax		
- Hong Kong profits tax	**207,073**	158,078
- Overseas taxation	**24,165**	20,128
Deferred income tax		
- Origination and reversal of temporary differences	**2,243**	(957)
Taxation	**233,481**	177,249

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

	As at 30 Jun 2018	As at 31 Dec 2017
Trading securities		
Debt securities:		
- Listed in Hong Kong	**82,766**	97,672
- Unlisted	**5,273,967**	8,739,882
	5,356,733	8,837,554
Financial assets at fair value through profit or loss		
Categorised by designation upon or subsequent to initial recognition:		
Debt securities:		
- Listed outside Hong Kong	**-**	28,429
- Unlisted	**-**	324,918
	-	353,347
Categorised based on requirements of HKFRS 9:		
Debt securities:		
- Unlisted	**327,918**	-
	327,918	353,347
Total	**5,684,651**	9,190,901
Included within debt securities are:		
- Treasury bills which are cash equivalents	**838,790**	1,122,876
- Other treasury bills	**4,479,056**	7,677,149
- Government bonds	**38,887**	37,529
- Other debt securities issued by:		
- Corporate entities	**327,918**	353,347
	5,684,651	9,190,901

As at 30 June 2018 and 31 December 2017, 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 2018 were as follows:

	Contract/ notional amount	Fair values Assets	Fair values Liabilities
1) Derivatives held for trading			
a) *Foreign exchange derivatives*			
Forward and futures contracts	**80,809,072**	**359,091**	**(399,240)**
Currency options purchased and written	**15,136,067**	**8,180**	**(8,081)**
b) *Interest rate derivatives*			
Interest rate futures	**47,077**	**-**	**(127)**
Interest rate swaps	**2,497,589**	**15,093**	**(12,299)**
Interest rate options purchased and written	**679,367**	**111**	**(89)**
c) *Equity derivatives*			
Equity options purchased and written	**238,254**	**5,799**	**(5,800)**
Total derivative assets/ (liabilities) held for trading	**99,407,426**	**388,274**	**(425,636)**
2) Derivatives held for hedging			
a) *Derivatives designated as fair value hedges*			
Interest rate swaps	**28,630,834**	**630,869**	**(149,434)**
Total derivative assets/ (liabilities) held for hedging	**28,630,834**	**630,869**	**(149,434)**
Total recognised derivative financial assets/ (liabilities)	**128,038,260**	**1,019,143**	**(575,070)**

12. Derivative financial instruments (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as at 31 December 2017 were as follows:

	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) *Foreign exchange derivatives*			
Forward and futures contracts	82,495,665	581,964	(479,218)
Currency options purchased and written	12,675,402	7,543	(7,536)
b) *Interest rate derivatives*			
Interest rate futures	-	-	-
Interest rate swaps	2,385,852	16,002	(9,965)
Interest rate options purchased and written	676,566	479	(2,801)
c) *Equity derivatives*			
Equity options purchased and written	176,360	3,495	(3,495)
Total derivative assets/ (liabilities) held for trading	98,409,845	609,483	(503,015)
2) Derivatives held for hedging			
a) *Derivatives designated as fair value hedges*			
Interest rate swaps	26,856,746	288,484	(179,769)
Total derivative assets/ (liabilities) held for hedging	26,856,746	288,484	(179,769)
Total recognised derivative financial assets/ (liabilities)	125,266,591	897,967	(682,784)

12. Derivative financial instruments (Continued)

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 2018	As at 31 Dec 2017
Exchange rate contracts		
Forward and futures contracts	**512,857**	655,196
Currency options purchased	**256,387**	216,154
Interest rate contracts		
Interest rate swaps	**207,804**	145,926
Interest rate options	**1,810**	2,171
Other contracts	**11,466**	7,862
	990,324	1,027,309

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.

13. Advances and other accounts

	As at 30 Jun 2018	As at 31 Dec 2017
Gross advances to customers	**122,678,221**	119,264,658
Less: impairment allowances	**(880,847)**	(659,046)
	121,797,374	118,605,612
Trade bills	**4,130,109**	4,065,401
Less: impairment allowances	**(2,261)**	(14,229)
	4,127,848	4,051,172
Other assets		
- Accounts receivable arising from sale of securities pending for settlement	**499,736**	-
- Accounts receivable and prepayments	**2,716,483**	3,012,037
- Accrued income	**967,268**	891,726
- Others	**173,961**	187,854
	4,357,448	4,091,617
Less: impairment allowances	**(18,037)**	(11,431)
	4,339,411	4,080,186
Advances and other accounts	**130,264,633**	126,736,970

13. Advances and other accounts (Continued)

(a) Impaired, overdue and rescheduled assets

(i) Impaired loans

	As at 30 Jun 2018	As at 31 Dec 2017
Impaired loans and advances		
- Stage 3 (Note (1))	**1,025,085**	-
- Individually impaired (Note (1))	**-**	755,264
- Collectively impaired (Note (2))	**-**	19,033
	1,025,085	774,297
Impairment allowances made		
- Stage 3 (Note (3))	**(388,647)**	-
- Individually assessed (Note (3))	**-**	(280,641)
- Collectively assessed (Note (2))	**-**	(17,447)
	(388,647)	(298,088)
	636,438	476,209
Fair value of collaterals held *	**518,318**	563,247
Impaired loans and advances as a % of total loans and advances to customers	**0.84%**	0.65%

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

Note:

(1) Stage 3 loans are loans considered credit impaired. Details of "three-stage" model are described in Note 2(a)(1)(ii). 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 Stage 3/ individual impairment allowances were made after taking into account the value of collaterals in respect of such advances as at 30 June/ 31 December. Details of impairment methodology are described in Note 2(a)(1)(ii).

13. Advances and other accounts (Continued)

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

(ii) Gross amount of overdue loans

	As at 30 Jun 2018		As at 31 Dec 2017	
	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	**62,957**	**0.05**	91,458	0.08
- one year or less but over six months	**96,058**	**0.08**	126,354	0.11
- over one year	**501,441**	**0.41**	582,967	0.49
	660,456	**0.54**	800,779	0.68
Market value of securities held against the secured overdue advances	**654,854**		798,711	
Secured overdue advances	**454,486**		593,375	
Unsecured overdue advances	**205,970**		207,404	
Impairment allowances	**245,836**		258,988	

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 2018	**% of total**	As at 31 Dec 2017	% of total
Advances to customers	**335,610**	**0.27**	344,868	0.29
Impairment allowances	**119,875**		1,640	

(iv) Trade bills

	As at 30 Jun 2018	As at 31 Dec 2017
Trade bills which have been overdue for:		
- one year or less but over six months	**-**	4,397
- over one year	**102**	10,868
	102	15,265
Impairment allowances	**-**	-

(b) Repossessed collateral

Repossessed collateral held is as follows:

	As at 30 Jun 2018	As at 31 Dec 2017
Nature of assets		
Repossessed properties	**157,319**	282,643
Others	**7,496**	21,343
	164,815	303,986

Repossessed 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$62,759,000 (31 December 2017: HK$65,433,000), which had been foreclosed and repossessed 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.

14. Impairment allowances against advances to customers and other accounts

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL under simplified approach	Total
Closing balance under HKAS 39 at 31 December 2017					**684,706**
Changes on initial application of HKFRS 9					**294,079**
Impairment allowance as at 1 January 2018	**323,178**	**187,552**	**451,708**	**16,347**	**978,785**
Transfers:					
Transfer from Stage 1 to Stage 2	**(2,949)**	**11,340**	**-**	**-**	**8,391**
Transfer from Stage 1 to Stage 3	**(6,942)**	**-**	**31,985**	**-**	**25,043**
Transfer from Stage 2 to Stage 1	**4,029**	**(15,901)**	**-**	**-**	**(11,872)**
Transfer from Stage 2 to Stage 3	**-**	**(5,261)**	**14,438**	**-**	**9,177**
Transfer from Stage 3 to Stage 2	**-**	**-**	**(1)**	**-**	**(1)**
Transfer from Stage 3 to Stage 1	**-**	**-**	**(341)**	**-**	**(341)**
New financial assets originated or purchased	**114,486**	**7,298**	**19,773**	**-**	**141,557**
Changes in PDs/LGDs/EADs	**(64,569)**	**696**	**103,427**	**(432)**	**39,122**
Unwinding of discount	**8,028**	**1,783**	**4,066**	**-**	**13,877**
Financial assets derecognised during the period	**(41,444)**	**(24,741)**	**(66,480)**	**-**	**(132,665)**
Write-offs	**-**	**-**	**(171,105)**	**-**	**(171,105)**
Foreign exchange and other movements	**(169)**	**2**	**1,344**	**-**	**1,177**
Impairment allowance as at 30 June 2018	**333,648**	**162,768**	**388,814**	**15,915**	**901,145**
Deducted from:					
Trade bills	**2,259**	**2**	**-**	**-**	**2,261**
Advances to customers	**330,105**	**162,095**	**388,647**	**-**	**880,847**
Accrued interest and other accounts	**1,284**	**671**	**167**	**15,915**	**18,037**
	333,648	**162,768**	**388,814**	**15,915**	**901,145**

Abbreviations used:

PD	Probability of default
LGD	Loss given default
EAD	Exposures at default

14. Impairment allowances against advances to customers and other accounts (Continued)

	Individually assessed	Collectively assessed	Total
At 1 January 2017	444,561	435,748	880,309
Impairment losses charged	91,066	179,816	270,882
Loans written off as uncollectible	(267,889)	(268,055)	(535,944)
Recoveries of advances written off in previous years	21,019	42,093	63,112
Exchange and other adjustments	1,977	4,370	6,347
At 31 December 2017	290,734	393,972	684,706
Deducted from:			
Trade bills	-	14,229	14,229
Advances to customers	280,641	378,405	659,046
Accrued interest and other accounts	10,093	1,338	11,431
	290,734	393,972	684,706

15. Financial assets at fair value through other comprehensive income/ Available-for-sale securities

	As at 30 Jun 2018	As at 31 Dec 2017
	Financial assets at fair value through other comprehensive income	Available-for-sale securities
Debt securities:		
- Listed in Hong Kong	**16,516,762**	14,538,680
- Listed outside Hong Kong	**15,922,339**	17,654,181
- Unlisted	**5,584,662**	5,894,002
	38,023,763	38,086,863
Equity securities:		
- Listed in Hong Kong	**31,342**	53,387
- Unlisted	**83,163**	82,939
	114,505	136,326
Total	**38,138,268**	38,223,189
Included within debt securities are:		
- Certificates of deposit held	**1,385,113**	1,363,762
- Treasury bills which are cash equivalents	**598,210**	1,999,211
- Other treasury bills	**6,530,780**	5,760,110
- Government bonds	**189,539**	192,197
- Other debt securities	**29,320,121**	28,771,583
	38,023,763	38,086,863
Financial assets at fair value through other comprehensive income/ available-for-sale securities are analysed by categories of issuers as follows:		
- Central governments and central banks	**7,318,529**	7,951,518
- Public sector entities	**482,950**	639,637
- Banks and other financial institutions	**7,315,199**	7,672,393
- Corporate entities	**23,021,590**	21,957,188
- Others	**-**	2,453
	38,138,268	38,223,189

16. Financial assets at amortised cost/ Held-to-maturity securities

	As at 30 Jun 2018	As at 31 Dec 2017
	Financial assets at amortised cost	Held-to-maturity securities
Debt securities:		
- Listed in Hong Kong	**2,659,214**	1,751,107
- Listed outside Hong Kong	**3,759,235**	1,028,787
- Unlisted	**4,332,654**	3,453,810
	10,751,103	6,233,704
Less: impairment allowance		
- Stage 1	**(5,159)**	-
Total	**10,745,944**	6,233,704
Included within debt securities are:		
- Certificates of deposit held	**1,416,742**	746,813
- Treasury bills	**2,449,354**	2,179,817
- Government bonds	**543,936**	574,061
- Other debt securities	**6,341,071**	2,733,013
	10,751,103	6,233,704
Financial assets at amortised cost/ held-to-maturity securities are analysed by categories of issuers as follows:		
- Central governments and central banks	**2,993,290**	2,753,878
- Banks and other financial institutions	**4,446,917**	1,714,336
- Corporate entities	**3,308,443**	1,765,490
- Others	**2,453**	-
	10,751,103	6,233,704

17. Premises and other fixed assets

	Premises	Furniture, equipment and motor vehicles	Total
Six months ended 30 June 2018			
Opening net book amount	**2,523,879**	**424,373**	**2,948,252**
Additions	**-**	**61,096**	**61,096**
Disposals	**-**	**(270)**	**(270)**
Depreciation charge (Note 7)	**(29,663)**	**(63,053)**	**(92,716)**
Exchange difference	**(1,419)**	**(944)**	**(2,363)**
Closing net book amount	**2,492,797**	**421,202**	**2,913,999**
At 30 June 2018			
Cost	**2,905,451**	**1,090,020**	**3,995,471**
Accumulated depreciation	**(412,654)**	**(668,818)**	**(1,081,472)**
Net book amount	**2,492,797**	**421,202**	**2,913,999**
Year ended 31 December 2017			
Opening net book amount	2,589,567	415,540	3,005,107
Additions	-	129,101	129,101
Reclassification from premises to investment properties	(15,793)	-	(15,793)
Disposals	-	(1,128)	(1,128)
Depreciation charge	(58,726)	(122,640)	(181,366)
Exchange difference	8,831	3,500	12,331
Closing net book amount	2,523,879	424,373	2,948,252
At 31 December 2017			
Cost	2,907,048	1,066,976	3,974,024
Accumulated depreciation	(383,169)	(642,603)	(1,025,772)
Net book amount	2,523,879	424,373	2,948,252

18. Investment properties

	Six months ended 30 Jun 2018	Year ended 31 Dec 2017
At beginning of the period/ year	**1,179,442**	964,449
Reclassification from premises to investment properties	**-**	78,350
Fair value gains on revaluation	**-**	136,643
At end of the period/ year	**1,179,442**	1,179,442

The Group's investment properties were last revalued at 31 December 2017 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 2018	As at 31 Dec 2017
Demand deposits and current accounts	**36,410,085**	38,444,810
Savings deposits	**28,751,427**	28,961,837
Time, call and notice deposits	**99,022,607**	95,319,849
	164,184,119	162,726,496

20. Certificates of deposit issued

	As at 30 Jun 2018	As at 31 Dec 2017
At fair value under fair value hedge (for hedging interest rate risk)	**4,858,258**	5,903,621
At amortised cost	**1,822,232**	1,280,085
	6,680,490	7,183,706

The amount that the Group would be contractually required to pay at maturity to the holders of these certificates of deposit is HK$32 million higher (31 December 2017: HK$14 million higher) than the above carrying amount.

21. Subordinated notes

	As at 30 Jun 2018	As at 31 Dec 2017
At fair value under fair value hedge (for hedging interest rate risk):		
US$225,000,000 Subordinated Fixed Rate Notes due 2020 (Note (a))	**1,795,724**	1,820,234
US$225,000,000 Subordinated Fixed Rate Notes due 2024 (Note (b))	**1,756,048**	1,752,797
US$250,000,000 Subordinated Fixed Rate Notes due 2026 (Note (c))	**1,887,022**	1,914,335
	5,438,794	5,487,366

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 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.

(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 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$54 million higher (31 December 2017: HK$18 million lower) than the above carrying amount.

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 2018	As at 31 Dec 2017
Deferred income tax assets	**124,505**	81,492
Deferred income tax liabilities	**(16,215)**	(86,578)

	As at 30 Jun 2018	As at 31 Dec 2017
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	**237,898**	161,448
Deferred income tax liabilities:		
- Deferred income tax liabilities to be settled after more than 12 months	**(129,608)**	(166,534)
	108,290	(5,086)

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

	Six months Ended 30 Jun 2018	Year ended 31 Dec 2017
At 1 January	**(5,086)**	(20,783)
Impact of transition to HKFRS 9	**74,502**	-
Tax (charged)/ credited to the income statement (Note 10)	**(2,243)**	8,060
Tax credited to equity	**42,106**	1,874
Exchange difference	**(989)**	5,763
At 30 June/ 31 December	**108,290**	(5,086)

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	**Deferred expenses and others**	**Total**
At 1 January 2017	101,527	53,831	155,358
(Charged)/ credited to the income statement	(970)	1,297	327
Exchange difference	3,524	2,239	5,763
At 31 December 2017	104,081	57,367	161,448
Impact of transition to HKFRS 9	**81,530**	**-**	**81,530**
At 1 January 2018	**185,611**	**57,367**	**242,978**
(Charged)/ credited to the income statement	**(18,140)**	**14,006**	**(4,134)**
Exchange difference	**(642)**	**(304)**	**(946)**
At 30 June 2018	**166,829**	**71,069**	**237,898**

Deferred income tax liabilities:

	Provisions	**Accelerated tax depreciation**	**Investment properties revaluation**	**Investment revaluation**	**Total**
At 1 January 2017	10,029	88,632	3,919	73,561	176,141
(Credited)/ charged to the income statement	(10,029)	618	649	1,029	(7,733)
Credited to equity	-	-	-	(1,874)	(1,874)
At 31 December 2017	-	89,250	4,568	72,716	166,534
Impact of transition to HKFRS 9	**-**	**-**	**-**	**7,028**	**7,028**
At 1 January 2018	**-**	**89,250**	**4,568**	**79,744**	**173,562**
Credited to the income statement	**-**	**(4)**	**-**	**(1,887)**	**(1,891)**
Credited to equity	**-**	**-**	**-**	**(42,106)**	**(42,106)**
Exchange difference	**-**	**43**	**-**	**-**	**43**
At 30 June 2018	**-**	**89,289**	**4,568**	**35,751**	**129,608**

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

	Six months ended 30 Jun 2018	Year ended 31 Dec 2017
Fair value reserves in shareholders' equity:		
- Financial assets at fair value through other comprehensive income/ available-for-sale securities	**42,106**	1,874

23. Other reserves

	As at 30 Jun 2018	As at 31 Dec 2017
Consolidation reserve	**8,827**	8,827
Premises revaluation reserve	**233,100**	233,100
Investment revaluation reserve	**156,600**	318,224
Exchange reserve	**2,752**	96,658
General reserve	**700,254**	700,254
Reserve for share-based compensation	**12,079**	11,688
Retained earnings	**17,736,159**	17,649,790
	18,849,771	19,018,541
Proposed dividend/ dividend paid included in retained earnings	**182,900**	434,000

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 2018, the Bank has earmarked a regulatory reserve of HK$1,169,211,000 (31 December 2017: HK$1,427,215,000) 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 2018	As at 31 Dec 2017
Expenditure contracted but not provided for	**43,455**	55,462

(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 2018	As at 31 Dec 2017
Direct credit substitutes	**285,721**	321,146
Transaction-related contingencies	**537,037**	525,329
Trade-related contingencies	**689,716**	627,706
Commitments that are unconditionally cancellable without prior notice	**65,651,855**	71,273,512
Other commitments with an original maturity of:		
- under 1 year	**2,893,899**	3,125,645
- 1 year and over	**626,830**	799,392
Forward forward deposits placed	**225,725**	-
	70,910,783	76,672,730

	Credit risk weighted amount	
	As at 30 Jun 2018	As at 31 Dec 2017
Contingent liabilities and commitments	**1,454,093**	1,473,077

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 2018	As at 31 Dec 2017
Assets pledged with HKMA:		
Trading securities	**3,628,943**	6,064,992
Available-for-sale securities	**-**	725,732
Financial assets at fair value through other comprehensive income	**516,681**	-
	4,145,624	6,790,724
Associated liabilities:		
Trading liabilities	**5,343,254**	8,668,508

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 2018	As at 31 Dec 2017
Assets pledged under repurchase agreements:		
Available-for-sale securities	**-**	462,403
Financial assets at fair value through other comprehensive income	**723,705**	-
Associated liabilities:		
Deposits from banks	**698,181**	453,740

(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 2018	As at 31 Dec 2017
Not later than 1 year	**187,750**	183,946
Later than 1 year and not later than 5 years	**496,079**	461,824
Later than 5 years	**179,737**	233,800
	863,566	879,570

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 2018	As at 31 Dec 2017
Not later than 1 year	**25,127**	30,174
Later than 1 year and not later than 5 years	**14,724**	5,997
	39,851	36,171

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 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	2,326,518	10,554,368	-	-	-	-	-	12,880,886
Placements with banks maturing between one and twelve months	-	-	5,620,221	4,274,777	-	-	-	9,894,998
Trading securities	-	1,074,536	1,618,718	2,663,479	-	-	-	5,356,733
Financial assets at fair value through profit or loss	-	209,032	118,886	-	-	-	-	327,918
Derivative financial instruments	-	121,239	90,098	158,564	175,239	474,003	-	1,019,143
Advances and other accounts	7,588,641	21,696,592	11,816,985	17,908,914	32,729,159	36,966,820	1,557,522	130,264,633
Financial assets at fair value through other comprehensive income	-	2,055,800	1,616,672	5,066,302	20,512,075	8,772,914	114,505	38,138,268
Financial assets at amortised cost	-	1,330,351	794,099	7,314,716	1,302,025	-	4,753	10,745,944
Investment in an associate	-	-	-	-	-	-	3,726,684	3,726,684
Investments in jointly controlled entities	-	-	-	-	-	-	93,543	93,543
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	58,252	58,252
Premises and other fixed assets	-	-	-	-	-	-	2,913,999	2,913,999
Investment properties	-	-	-	-	-	-	1,179,442	1,179,442
Current income tax assets	-	-	-	-	-	-	-	-
Deferred income tax assets	-	-	-	-	124,505	-	-	124,505
Total assets	9,915,159	37,041,918	21,675,679	37,386,752	54,843,003	46,213,737	10,460,390	217,536,638
Liabilities								
Deposits from banks	53,809	754,043	-	580,211	820,454	-	-	2,208,517
Derivative financial instruments	-	166,170	93,217	185,432	124,090	6,161	-	575,070
Trading liabilities	-	1,171,389	2,239,960	1,921,833	10,072	-	-	5,343,254
Deposits from customers	65,304,467	31,245,786	44,006,326	22,564,768	1,062,772	-	-	164,184,119
Certificates of deposit issued	-	-	599,398	5,243,816	837,276	-	-	6,680,490
Subordinated notes	-	-	-	1,756,049	3,682,745	-	-	5,438,794
Other accounts and accruals	89,290	2,459,305	475,860	1,011,903	25,621	-	2,629,105	6,691,084
Current income tax liabilities	-	-	-	450,737	-	-	-	450,737
Deferred income tax liabilities	-	-	-	-	16,215	-	-	16,215
Total liabilities	65,447,566	35,796,693	47,414,761	33,714,749	6,579,245	6,161	2,629,105	191,588,280
Net liquidity gap	(55,532,407)	1,245,225	(25,739,082)	3,672,003	48,263,758	46,207,576	7,831,285	25,948,358

25. Maturity analysis (Continued)

At 31 December 2017	Repayable on demand	Up to 1 month	3 months or less but over 1 month	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	2,129,449	15,214,224	-	-	-	-	-	17,343,673
Placements with banks maturing between one and twelve months	-	-	5,300,107	6,556,134	-	-	-	11,856,241
Trading securities	-	2,594,763	554,397	5,652,032	36,362	-	-	8,837,554
Financial assets at fair value through profit or loss	-	207,137	117,781	-	-	28,429	-	353,347
Derivative financial instruments	-	259,049	164,185	169,303	95,286	210,144	-	897,967
Advances and other accounts	7,375,087	19,074,016	10,835,482	16,524,456	34,266,957	36,516,527	2,144,445	126,736,970
Available-for-sale securities	-	2,088,412	2,882,169	3,890,992	22,060,871	7,159,666	141,079	38,223,189
Held-to-maturity securities	-	1,512,316	988,497	2,516,411	1,216,480	-	-	6,233,704
Investment in an associate	-	-	-	-	-	-	4,134,651	4,134,651
Investments in jointly controlled entities	-	-	-	-	-	-	81,157	81,157
Goodwill	-	-	-	-	-	-	811,690	811,690
Intangible assets	-	-	-	-	-	-	58,252	58,252
Premises and other fixed assets	-	-	-	-	-	-	2,948,252	2,948,252
Investment properties	-	-	-	-	-	-	1,179,442	1,179,442
Current income tax assets	-	-	-	137	-	-	-	137
Deferred income tax assets	-	-	-	-	81,492	-	-	81,492
Total assets	**9,504,536**	40,949,917	20,842,618	35,309,465	57,757,448	43,914,766	11,498,968	219,777,718
Liabilities								
Deposits from banks	45,977	450,519	1,202,023	-	578,872	-	-	2,277,391
Derivative financial instruments	-	196,414	150,127	150,604	148,339	37,300	-	682,784
Trading liabilities	-	589,376	6,609,302	1,449,608	20,222	-	-	8,668,508
Deposits from customers	67,867,396	32,877,889	41,623,966	19,368,160	989,085	-	-	162,726,496
Certificates of deposit issued	-	849,938	2,262,267	1,976,889	2,094,612	-	-	7,183,706
Subordinated notes	-	-	-	-	5,487,366	-	-	5,487,366
Other accounts and accruals	41,592	1,932,398	716,273	693,317	39,041	-	2,673,490	6,096,111
Current income tax liabilities	-	-	-	451,650	-	-	-	451,650
Deferred income tax liabilities	-	-	-	-	86,578	-	-	86,578
Total liabilities	67,954,965	36,896,534	52,563,958	24,090,228	9,444,115	37,300	2,673,490	193,660,590
Net liquidity gap	(58,450,429)	4,053,383	(31,721,340)	11,219,237	48,313,333	43,877,466	8,825,478	26,117,128

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 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Descriptions				
Financial assets at fair value through profit or loss				
Debt securities	-	**5,684,651**	-	**5,684,651**
Derivative financial instruments				
Held for trading	-	**388,274**	-	**388,274**
Held for hedging	-	**630,869**	-	**630,869**
Financial assets at fair value through other comprehensive income				
Debt securities	-	**38,023,763**	-	**38,023,763**
Equity securities	**31,342**	-	**83,163**	**114,505**
Total assets measured at fair value	**31,342**	**44,727,557**	**83,163**	**44,842,062**
Financial liabilities at fair value through profit or loss				
Held for trading	-	**5,343,254**	-	**5,343,254**
Derivative financial instruments				
Held for trading	-	**425,636**	-	**425,636**
Held for hedging	-	**149,434**	-	**149,434**
Total liabilities measured at fair value	-	**5,918,324**	-	**5,918,324**

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 2018 and the year ended 31 December 2017, 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 2017	Level 1	Level 2	Level 3	Total
Descriptions				
Financial assets at fair value through profit or loss				
Debt securities	-	9,190,901	-	9,190,901
Derivative financial instruments				
Held for trading	-	609,483	-	609,483
Held for hedging	-	288,484	-	288,484
Available-for-sale financial assets				
Debt securities	-	38,082,110	4,753	38,086,863
Equity securities	53,387	-	82,939	136,326
Total assets measured at fair value	53,387	48,170,978	87,692	48,312,057
Financial liabilities at fair value through profit or loss				
Held for trading	-	8,668,508	-	8,668,508
Derivative financial instruments				
Held for trading	-	503,015	-	503,015
Held for hedging	-	179,769	-	179,769
Total liabilities measured at fair value	-	9,351,292	-	9,351,292

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, 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.

27. 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)	**501,859**	**104,784**	**(59,096)**	**77,244**	**20,379**	**-**	**645,170**
Total operating income	**1,368,048**	**717,593**	**290,058**	**359,293**	**21,001**	**-**	**2,755,993**
Operating expenses	**(744,645)**	**(226,459)**	**(74,542)**	**(244,488)**	**3,908**	**-**	**(1,286,226)**
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	**(106,014)**	**58,541**	**263**	**8,768**	**257**	**-**	**(38,185)**
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**
Net gain on disposal of available-for-sale securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	**-**	**-**	**-**	**-**	**12,386**	**-**	**12,386**
Profit before taxation	**517,171**	**549,675**	**216,444**	**130,465**	**37,551**	**-**	**1,451,306**
Taxation (expenses)/ credit	**(85,332)**	**(90,987)**	**(35,749)**	**(23,144)**	**1,731**	**-**	**(233,481)**
Profit after taxation	**431,839**	**458,688**	**180,695**	**107,321**	**39,282**	**-**	**1,217,825**
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 30 June 2018							
Segment assets	**47,782,868**	**61,016,867**	**71,653,061**	**34,190,690**	**6,759,922**	**(3,866,770)**	**217,536,638**
Segment liabilities	**98,012,434**	**39,061,498**	**14,162,826**	**26,253,580**	**17,964,712**	**(3,866,770)**	**191,588,280**

27. Operating segment reporting (Continued)

For the six months ended 30 June 2017

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter-segment	Total
Net interest income / (expenses)	797,846	574,330	273,813	266,040	(31,976)	-	1,880,053
Non-interest income / (expenses)	347,135	91,187	(4,508)	63,705	28,814	-	526,333
Total operating income / (loss)	1,144,981	665,517	269,305	329,745	(3,162)	-	2,406,386
Operating expenses	(701,818)	(219,521)	(77,179)	(235,984)	3,483	-	(1,231,019)
Operating profit before credit impairment (losses)/ written back	443,163	445,996	192,126	93,761	321	-	1,175,367
Credit impairment (losses)/ written back	(125,581)	(46,118)	-	4,424	-	-	(167,275)
Operating profit after credit impairment (losses)/ written back	317,582	399,878	192,126	98,185	321	-	1,008,092
Net loss on disposal of other fixed assets	(33)	(7)	-	(56)	(10)	-	(106)
Net gain on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Net gain on disposal of available-for-sale securities	-	-	23,365	-	-	-	23,365
Impairment loss on investment in an associate	-	-	-	-	-	-	-
Share of results of an associate	-	-	-	373,038	-	-	373,038
Share of results of jointly controlled entities	-	-	-	-	9,198	-	9,198
Profit before taxation	317,549	399,871	215,491	471,167	9,509	-	1,413,587
Taxation expenses	(52,399)	(65,978)	(35,556)	(14,423)	(8,893)	-	(177,249)
Profit after taxation	265,150	333,893	179,935	456,744	616	-	1,236,338
For the six months ended 30 June 2017							
Depreciation and amortisation	41,503	11,880	5,077	18,848	11,907	-	89,215
As at 31 December 2017							
Segment assets	47,248,470	58,264,178	76,464,789	36,485,129	6,091,356	(4,776,204)	219,777,718
Segment liabilities	96,100,034	37,301,046	18,335,487	28,208,303	18,491,924	(4,776,204)	193,660,590

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 2018				
Operating income	**2,518,864**	**237,129**	**-**	**2,755,993**
Profit before taxation	**1,315,737**	**135,569**	**-**	**1,451,306**
As at 30 June 2018				
Total assets	**198,860,824**	**21,010,516**	**(2,334,702)**	**217,536,638**
Total liabilities	**175,785,187**	**18,137,795**	**(2,334,702)**	**191,588,280**
Intangible assets and goodwill	**318,667**	**551,275**	**-**	**869,942**
Contingent liabilities and commitments	**74,572,971**	**2,223,500**	**(109,338)**	**76,687,133**

	Hong Kong and Others	Macau	Inter-segment elimination	Total
For the six months ended 30 June 2017				
Operating income	2,187,006	219,380	-	2,406,386
Profit before taxation	1,293,898	119,689	-	1,413,587
As at 31 December 2017				
Total assets	202,180,603	20,890,338	(3,293,223)	219,777,718
Total liabilities	178,792,606	18,161,207	(3,293,223)	193,660,590
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	82,665,576	2,304,555	(109,242)	84,860,889

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 2018 and the corresponding comparative balances.

The Group did not have any structural foreign exchange position as at 30 June 2018 and 31 December 2017. The net option position is calculated in the basis of the delta-weighted position of all foreign currency option contracts.

	At 30 Jun 2018				
Equivalent in HK$ millions	**US dollars**	**Renminbi**	**Macau Pataca**	**Other foreign currencies**	**Total foreign currencies**
Spot assets	**62,805**	**13,412**	**9,938**	**5,275**	**91,430**
Spot liabilities	**(35,474)**	**(12,934)**	**(10,945)**	**(8,562)**	**(67,915)**
Forward purchases	**33,004**	**11,896**	**-**	**8,755**	**53,655**
Forward sales	**(59,981)**	**(12,299)**	**-**	**(5,455)**	**(77,735)**
Net options position	**(11)**	**-**	**-**	**11**	**-**
Net long/ (short) position	**343**	**75**	**(1,007)**	**24**	**(565)**

	At 31 Dec 2017			
Equivalent in HK$ millions	US dollars	Macau Pataca	Other foreign currencies	Total foreign currencies
Spot assets	69,163	9,139	18,957	97,259
Spot liabilities	(32,744)	(10,817)	(22,919)	(66,480)
Forward purchases	26,575	-	18,272	44,847
Forward sales	(62,053)	-	(14,330)	(76,383)
Net options position	1	-	(1)	-
Net long/ (short) position	942	(1,678)	(21)	(757)

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 2018		As at 31 Dec 2017	
	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	**5,458,012**	**62.4**	3,927,651	87.5
- Property investment	**14,987,944**	**97.3**	14,933,223	96.3
- Financial concerns	**4,399,650**	**6.8**	3,814,050	7.9
- Stockbrokers	**2,456,874**	**40.3**	2,141,027	54.2
- Wholesale and retail trade	**6,167,850**	**86.5**	7,202,373	85.9
- Manufacturing	**2,240,967**	**63.3**	1,900,894	80.0
- Transport and transport equipment	**3,771,502**	**74.6**	3,932,189	76.6
- Recreational activities	**100,308**	**100.0**	96,881	100.0
- Information technology	**64,046**	**84.3**	68,986	90.7
- Others	**3,818,192**	**67.6**	4,114,396	72.0
	43,465,345	**72.6**	42,131,670	78.6
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**656,412**	**100.0**	687,074	100.0
- Loans for the purchase of other residential properties	**23,788,584**	**99.9**	22,988,102	99.9
- Credit card advances	**3,561,358**	**-**	3,613,411	-
- Others	**12,643,019**	**51.4**	12,308,030	51.6
	40,649,373	**76.1**	39,596,617	75.8
Loans for use in Hong Kong	**84,114,718**	**74.3**	81,728,287	77.3
Trade finance (Note (1))	**9,525,772**	**61.8**	8,766,204	62.6
Loans for use outside Hong Kong (Note (2))	**29,037,731**	**67.1**	28,770,167	68.1
	122,678,221	**71.6**	119,264,658	74.0

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$286,720,000 (31 December 2017: HK$476,119,000) 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 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	**14,987,944**	**56,091**	**47,029**	**2,396**	**95,538**
Individuals - Loans for the purchase of other residential properties	**23,788,584**	**23,792**	**13,304**	**1,367**	**12,849**
Loans for use outside Hong Kong	**29,037,731**	**248,647**	**152,453**	**102,493**	**89,294**

	At 31 Dec 2017				
	Outstanding balance	Impaired loans	Gross advances overdue for over 3 months	Individually assessed impairment allowances	Collectively assessed impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial - Property investment	14,933,223	78,968	59,897	6,925	47,835
Individuals - Loans for the purchase of other residential properties	22,988,102	6,305	9,337	-	4,107
Loans for use outside Hong Kong	28,770,167	187,828	258,196	100,236	106,550

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 2018	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)	8,873,781	236,999	9,110,780
2. Local governments, local government-owned entities and their subsidiaries and JVs	811,577	115,596	927,173
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	12,827,410	724,126	13,551,536
4. Other entities of central government not reported in item 1 above	1,705,607	24,920	1,730,527
5. Other entities of local governments not reported in item 2 above	735,797	-	735,797
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	9,200,868	357,853	9,558,721
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	1,314,477	44,745	1,359,222
	35,469,517	1,504,239	36,973,756
Total assets of the Bank and its Mainland subsidiary bank after provision	199,503,536		
On-balance sheet exposures as percentage of total assets	17.78%		

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)

(b) Mainland activities exposures (Continued)

As at 31 December 2017	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1. Central government, central government-owned entities and their subsidiaries and JVs	7,145,507	70,194	7,215,701
2. Local governments, local government-owned entities and their subsidiaries and JVs	896,387	78,815	975,202
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	13,523,930	1,113,634	14,637,564
4. Other entities of central government not reported in item 1 above	1,635,173	15,391	1,650,564
5. Other entities of local governments not reported in item 2 above	835,183	-	835,183
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	8,511,455	206,141	8,717,596
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	1,113,077	48,625	1,161,702
	33,660,712	1,532,800	35,193,512

Total assets of the Bank and its Mainland subsidiary bank after provision	201,200,282
On-balance sheet exposures as percentage of total assets	16.73%

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 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	**99,774,445**	**889,286**	**540,483**	**363,132**	**429,612**
China	**7,399,702**	**83,735**	**52,715**	**6,950**	**37,817**
Macau	**13,764,817**	**52,064**	**52,064**	**18,565**	**17,510**
Others	**1,739,257**	**-**	**15,194**	**-**	**7,261**
	122,678,221	**1,025,085**	**660,456**	**388,647**	**492,200**

As at 31 December 2017

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	95,759,022	702,373	662,535	246,470	282,407
China	8,229,210	26,578	66,982	20,955	51,365
Macau	13,203,133	26,302	60,870	13,205	38,645
Others	2,073,293	11	10,392	11	5,988
	119,264,658	755,264	800,779	280,641	378,405

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 2018 In millions of HK$	**Banks**	**Official sector**	**Non-bank private sector** **Non-bank financial institutions**	 **Non-financial private sector**	**Total claims**
Offshore centres	**6,385**	**13,761**	**7,995**	**119,748**	**147,889**
- of which: Hong Kong	**5,947**	**11,199**	**7,725**	**104,035**	**128,906**
Developing Asia and Pacific	**30,686**	**1,667**	**1,149**	**13,254**	**46,756**
- of which: Mainland China	**25,052**	**1,592**	**787**	**11,382**	**38,813**

At 31 December 2017 In millions of HK$	Banks	Official sector	Non-bank private sector Non-bank financial institutions	 Non-financial private sector	Total claims
Offshore centres	6,903	17,445	7,429	114,262	146,039
- of which: Hong Kong	5,781	15,164	7,133	98,814	126,892
Developing Asia and Pacific	32,271	2,083	1,058	12,780	48,192
- of which: Mainland China	26,357	2,005	694	11,135	40,191

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

	As at 30 Jun 2018 **Contract amount**	 **% covered by collateral**	As at 31 Dec 2017 Contract amount	 % covered by collateral
Financial guarantees and other credit related contingent liabilities	**1,512,474**	**20.4**	1,474,181	23.7
Loan commitments and other credit related commitments	**69,398,309**	**5.4**	75,198,549	5.2
	70,910,783	**5.7**	76,672,730	5.5

30. Capital adequacy ratio

	As at 30 Jun 2018	As at 31 Dec 2017
Capital adequacy ratio		
- Common Equity Tier 1	**13.4%**	13.4%
- Tier 1	**14.0%**	14.0%
- Total	**18.4%**	18.7%

The capital adequacy ratio as at 30 June 2018 and 31 December 2017 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

31. Liquidity maintenance ratio

	Six months ended 30 Jun 2018	Six months ended 30 Jun 2017	Year ended 31 Dec 2017
Liquidity maintenance ratio	**44.0%**	43.8%	44.0%

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 2018	Six months ended 30 Jun 2017
Net interest income/ operating income	**76.6%**	78.1%
Cost to income ratio	**46.7%**	51.2%
Return on average total assets (annualised)	**1.3%**	1.2%
Adjusted return on average total assets (annualised) (Note 1)	**1.5%**	N/A
Return on average shareholders' funds (annualised)	**11.3%**	10.3%
Adjusted return on average shareholders' funds (annualised) (Note 1)	**12.9%**	N/A
Net interest margin	**2.08%**	1.94%

	As at 30 Jun 2018	As at 31 Dec 2017
Loan to deposit ratio	**71.8%**	70.2%

Note:

1. Excluding the impairment loss on the investment in an associate recognised in the six months ended 30 June 2018

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

The relatively robust economic conditions in 2017 continued in the first half of 2018, with a growth at 3.5% in the second quarter, following the strong first quarter growth of 4.7% year on year. Exports of both goods and services were strong, and private consumption expenditure grew notably. The labour market remained very strong, with an unemployment rate of only 2.8%, a 20-year low. The local stock market ended slightly down in the first half following a sell-off in June. After growing at 6.8% in the first quarter of the year, GDP growth in China slowed slightly to 6.7% in the second quarter, broadly in line with expectations. The Federal Reserve, as expected, raised interest rates twice in the first half of the year, as generally expected. Hong Kong interest rates, however, were somewhat more volatile, with a sharp rise in Hong Kong dollar interbank rates towards the end of the first half, although even after this sharp rise, Hong Kong rates remained somewhat below US rates. Despite the increase in interest rates, overall economic conditions in our core markets remained benign.

Against the backdrop of the robust economic performance in Hong Kong and Mainland China, we reported growth in operating profit after credit impairment losses of 42.0% to HK$1,432 million, driven by both an improvement in operating income, and substantially lower loan impairment charges. Profit for the period dropped by 1.5%, due mainly to an impairment provision against our investment in Bank of Chongqing (“BOCQ”) of HK$403 million, as well as a higher tax charge of HK$233 million resulting from the much improved operating profit. For the first half of the year a dividend of HK$182,900,000 was declared.

BUSINESS AND FINANCIAL REVIEW

Our core banking business performed particularly strongly in the first half of this year in all key areas. Both net interest income and fee and commission income grew strongly whilst costs were managed closely, resulting in positive “jaws” and an improvement in cost efficiency. Our net interest income grew by 12.3% in the first half of the year, driven by an improved net interest margin, as well as moderate loan growth of 4.4% year on year.

Growth in fee and commission income was particularly strong, increasing by 34.8% in the first half of the year. A number of factors drove this increase, including stronger wealth management revenues, including bancassurance, and fees from our commercial banking operation. Foreign exchange related income was much improved, particularly in our retail banking business, as we continued to roll out new and improved products and services for our customers. Operating expense growth was relatively modest in the first half, at 4.5%, leading to an improvement in our cost to income ratio from 51.2% to 46.7%.

Our wholly-owned banking subsidiaries in Macau and Mainland China both reported an improved performance in the first half of the year. The contribution from our associate company, BOCQ, also improved at the operating level, although we again made an impairment charge against its Value in Use (see below). With strong profit growth in our main businesses, again the proportion of the group’s profit contributed by BOCQ (before impairment) was reduced.

Credit quality remained very strong during the first half of the year, with a net impairment charge of HK$38 million. It should be noted that the credit impairment charge in 1H 2018 was calculated under a new accounting standard, HKFRS 9, effective from January 2018, and the corresponding impairment charge in 1H 2017, calculated under the prior accounting standard, had not be restated. Asset quality was strong across both our retail and commercial banking businesses, with a generally low level of impairment charges further assisted to some extent by provision reversal on recoveries on loans previously provided for.

In addition, following a periodic review of the Value in Use of our investment in BOCQ, we again made an impairment provision against the value of this investment, in the amount of HK$403 million.

BUSINESS AND FINANCIAL REVIEW (Continued)

The Group generated an adjusted return on assets of 1.5% and ROE of 12.9% for the period, on the basis that the impact of the impairment provision on the investment in BOCQ made in the period was excluded, which are higher than the same period in 2017.

As at 30 June 2018, the Bank's consolidated Common Equity Tier 1 ratio and total consolidated capital adequacy ratio were 13.4% and 18.4% respectively, similar to the levels at the end of 2017.

PROSPECTS

Conditions in the first half of 2018 have remained generally benign in our core markets of Hong Kong, Macau and Mainland China, despite a more unstable global political and economic environment year to date. Both the US economy and the US dollar have remained strong during the first half of the year. The Hong Kong economy has been generally buoyant and the Mainland economy has been broadly stable.

However, the generally benign conditions in the first half may not continue as strongly in the second half of the year. We have already seen the rises in US interest rates impacting on Hong Kong dollar rates, which have risen during the first half of the year. The impact of a trade war, and particularly the impact of possibly higher tariffs and restrictions on trade with the Mainland by the US, remain uncertain. These developments, amongst others, have unsettled equity investors in Hong Kong, resulting in a much weaker equity market coming to midyear. Mainland equity markets have been even more deeply affected, with relatively sharp falls in the first half of the year.

All of this makes us somewhat more cautious on the outlook for the second half of the year. However, currently our overall business conditions remain relatively stable, so we are not at this stage unduly pessimistic, and we expect to continue to see at least modest loan growth in the second half of the year.

The potential impact of a trade war has made us somewhat less positive about the credit outlook for the remaining part of the year, particularly for our commercial banking business. However, after a very strong performance in the first half of the year, the full year credit impairment charge is expected to be manageable. In addition, our capital adequacy remains robust. The impact of rising interest rates has increased our deposit and other funding costs, which may have a knock-on effect on our net interest margin for the second half of the year.

In addition, we will also perform a further review of the Value in Use of BOCQ in the second half of 2018, and it remains uncertain whether any further impairment charge may be needed at that time.

However, whilst there are a few negative factors, we are in general reasonably positive about the outlook for the second half of the year.

CORPORATE GOVERNANCE

The Board of Directors and the Management of Dah Sing Bank, Limited (the “Bank” or the “Group”) is committed to maintaining a high standard of corporate governance practices and devote considerable effort to identify and formalize best practices. We believe that sound and effective corporate governance practices are essential for delivering sustainable value, enhancing a culture of business integrity and maintaining investors’ confidence. Good corporate governance promotes and safeguards the interests of shareholders and other stakeholders including customers and employees, thereby enhancing the credibility and reputation of the Bank.

The Bank abides strictly by the relevant laws and regulations in Hong Kong, and observes the rules and guidelines issued by regulatory authorities including the Hong Kong Monetary Authority (“HKMA”). It has fully complied with the requirements set out in the Supervisory Policy Manual module CG-1 entitled “Corporate Governance of Locally Incorporated Authorised Institutions” (“CG-1”) and CG-5 entitled “Guideline on a Sound Remuneration System” (“CG-5”), Guidance on Empowerment of Independent Non-Executive Directors and the circular on Bank Culture Reform issued by the HKMA.

CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

The Bank has in place a corporate governance framework which identifies all the key participants of the Group and the ways which they relate to each other and their roles in the application of effective governance policies and processes.

The Bank has adopted a set of Board Governance Policy and Procedures (“BGPP”) since 2013. The BGPP of the Bank is subject to regular review and update to ensure compliance with the latest regulatory requirements.

The BGPP has been developed in pursuance of the requirements of the CG-1, which has laid down the governance framework and structures of the Bank covering the responsibilities of the board, the organization and functioning of the board, board committees, appointment of directors and succession, board qualification and training, delegation of authority and oversight of senior management, evaluation of the board and individual directors, governance in group structure, controls on structures established on behalf of customers, risk management, and legal obligations of directors.

The supervision of the management and direction of the business and affairs of the Bank shall be vested in the Board, who, in addition to the powers and authorities set out in the Bank’s constitutional documents expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Bank. In discharging its responsibilities, the Board shall take into account the legitimate interests of shareholders, depositors and other relevant stakeholders.

BOARD OF DIRECTORS

The Board of the Bank has the ultimate responsibility for the supervision, leadership, operations and financial soundness of the Bank. In discharging its responsibilities, the Board actively engages in the affairs of the Bank and is cognizant of material changes in the Bank’s business and the external environment in which the Bank operates. The Board acts honestly and in good faith in the interest of the Bank, and on an informed and prudent basis, having regard to the legitimate interests of shareholders, depositors and other relevant stakeholders.

As at the date of this report, the Board comprises twelve members, of whom seven are Executive Directors and five are Independent Non-Executive Directors. Members of the Board are as follows:

BOARD OF DIRECTORS (continued)

Executive Directors
David Shou-Yeh Wong - Chairman
Hon-Hing Wong (Derek Wong) - Vice Chairman
Harold Tsu-Hing Wong - Vice Chairman, Managing Director and Chief Executive
Gary Pak-Ling Wang - Deputy Chief Executive and Group Chief Financial and Operating Officer
Nicholas John Mayhew - Deputy Chief Executive
Eddie Shing-Tat Lau - Alternate Chief Executive
Phoebe Mei-Chun Wong - Alternate Chief Executive

Independent Non-Executive Directors
Robert Tsai-To Sze
Lon Dounn
Seng-Lee Chan
Yuen-Tin Ng
Blair Chilton Pickerell

The biographical information of the Directors including their qualifications, directorships of other companies and other executive positions are disclosed in the annual report of the Bank for the year ended 31 December 2017.

The Board possesses appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to each of the material business activities that the Bank pursues and the associated risks in order to ensure effective governance and oversight.

According to the Terms of Reference of the Board, the key responsibilities of the Board include:-

- setting and overseeing the objectives and strategies of the Group
- approving annual budget and business plan, and monitoring performance and execution of plan
- establishing and overseeing risk governance
- appointment and oversight of senior management, and ensuring competent management is in place
- setting corporate values and standards
- overseeing the remuneration policy
- ensuring a suitable and transparent corporate structure
- ensuring effective audit function and internal control
- ensuring an appropriate level of effectiveness in respect of the structure, operation and risk management of the Bank
- matters involving conflict of interest of substantial shareholder or any Director
- material acquisition or disposal of assets (not in the ordinary business or operation of the Bank), investments and business reorganization
- material capital projects with long-term commitments
- delegation of authority to Board level Committees or individual Directors (for approving specific transactions)
- delegation to Senior Management the authority and responsibility to manage the regular businesses and affairs of the Bank and its subsidiaries consistent with the objectives and strategies of the Bank, and within the risk framework and limits approved by the Board
- appointment of Directors and Senior Management
- actively engaging in succession plans for the chief executive and other key senior executives as appropriate

BOARD OF DIRECTORS (continued)

Board meetings are held at least four times a year. In addition, special Board meetings are held when necessary. Dates of regular Board and Board Committee meetings are scheduled in the prior year to provide sufficient notice to give all Directors an opportunity to attend. For special Board meetings, reasonable notice is given. Board agenda is approved following consultation with the Directors and Senior Management. All Board meetings involve the active participation, either in person or through other electronic means of communication, of Directors. The Board held five meetings in 2017 including a special Board meeting. Up to the date of this report, the Board held four meetings in 2018 including a special Board meeting to review the remuneration of Senior Management and succession plan.

BOARD COMMITTEES

The Board has delegated its authority to various Committees to deal with specific matters under written terms of reference, which set out in detail their respective authorities and responsibilities. The Audit Committee, the Nomination and Remuneration Committee and Risk Management and Compliance Committee were established under the authority of the Board. The composition and terms of reference of these Committees are reviewed and updated regularly to ensure that they remain appropriate and in line with the regulatory requirements, the Group's business and changes in governance practices. All Board Committees adopt the same governance processes as the Board as far as practicable and report to the Board on their decisions or recommendations after each meeting.

Audit Committee

The Audit Committee ("AC") has the authority to review all matters related to financial statements and disclosure, audit work performed by internal and external auditors, internal control systems, risk management system and compliance for the whole Group. The AC reports to the Board following each AC meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

The AC meets at least three times a year with the Bank's executives including the Chief Executive, Deputy Chief Executive, Group Financial Controller, Head of Group Risk, Group Head of Internal Audit, and representatives from the Bank's external auditor. Special meetings of the AC are held when necessary.

As at the date of this report, the AC comprises three members and all the members are INEDs. The members of the AC are Messrs. Robert Tsai-To Sze (Chairman), Seng-Lee Chan and Yuen-Tin Ng. The AC held three meetings in 2017. Up to the date this report, the AC held three meetings in 2018, including a special meeting of the AC held jointly with the Risk Management and Compliance Committee.

The Audit Committee was established with written terms of reference and its major roles and functions are as follows:-

- To ensure the objectivity and credibility of financial reporting
- To review the internal control system and compliance with regulatory requirements
- To make recommendation to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor
- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards
- To approve the appointment, resignation or dismissal of the head of internal audit
- To approve audit plans
- To review the effectiveness of the internal audit function
- To review findings and reports of the internal and external auditors

BOARD COMMITTEES (continued)

Audit Committee (continued)

- To review and monitor the integrity of the Bank's annual and interim financial statements, including significant financial reporting judgments used in producing the financial statements
- To review the Bank's internal controls and reports its major findings and comments to the Board

Nomination and Remuneration Committee

The Nomination and Remuneration Committee ("NRC") is responsible for overseeing the remuneration matters of the Bank, and also to review and endorse the nomination of candidates for appointment as Non-Executive Directors (including INEDs), Executive Directors and Senior Management to the Board of the Bank. The NRC reports to the Board regularly on its findings, decisions and recommendations.

The NRC meets at least twice a year and at such other times as the NRC deems appropriate.

As at the date of this report, the NRC comprises three members, majority of whom are INEDs and is chaired by an INED. The members of the NRC are Messrs. Seng-Lee Chan (Chairman), Robert Tsai-To Sze and David Shou-Yeh Wong. The NRC held three meetings in 2017. Up to the date of this report, the NRC held three meetings in 2018, one of which is a special meeting of the NRC.

The NRC was established with written terms of reference and its major roles and functions are as follows:-

- To review and endorse the nomination of directors and senior management
- To assist the Board in discharging its responsibility for the design and operation of the Bank's remuneration system
- To review and make recommendation to the Board in respect of the Bank's remuneration policy and practices
- To review and endorse the specific remuneration packages of directors and senior management
- To ensure that regular review of the Bank's remuneration system and its operation is conducted
- To review the structure, size, composition and diversity of the Board and also its committees at least annually and make recommendations on any proposed changes to the Board
- To regularly review the efficiency and effectiveness of the functioning of the Board and also its committees, particularly in respect of the composition of Board and committee members
- To advise and assist the Board in discharging its culture reform and related responsibilities

Risk Management and Compliance Committee

The Risk Management and Compliance Committee ("RMCC") is to provide guidance and oversight on the Bank's risk management strategy and development, review risk management issues and the resolution thereof, review risk management policies and major risk limits prior to the approval by the Board, and review major regulatory compliance issues and development, and exercise oversight on the compliance function and activities of the Bank. It has the authority to conduct any enquiry and review on matters related to risk management and compliance with risk policy and regulatory requirements. The RMCC reports to the Board following each RMCC meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

The RMCC meets at least four times a year with the Bank's executives including the Chief Executive, Deputy Chief Executives, Head of Group Risk, Group Head of Compliance and Group Head of AML and Financial Crime Risk. Special meetings of the RMCC are held when necessary.

BOARD COMMITTEES (continued)

Risk Management and Compliance Committee (continued)

As at the date of this report, the RMCC comprises three INEDs and the Chief Executive of the Bank and is chaired by an INED. The members of the RMCC are Messrs. Lon Dounn (Chairman), Yuen-Tin Ng, Blair Chilton Pickerell and Harold Tsu-Hing Wong. The RMCC held four meetings in 2017 and up to the date of this report, the RMCC held three meetings in 2018.

The RMCC was established with written terms of reference and its major roles and functions are as follows:-

- To assist the Board in reviewing all major risk management policies and risk limits, including capital management policy and capital plan, as well as the recovery plan
- To assist the Board in reviewing all major compliance and legal issues, including those relating to anti-money laundering
- To assist the Board in overseeing the implementation of the stress-testing programme, reviewing the stress-testing results, including the stress test against capital plan and ensuring that suitable actions are taken to mitigate potential risks where necessary
- To monitor and ensure that major risk management policies and risk limits of the Bank and its subsidiaries comply with relevant regulatory requirements, and follow up on non-compliance issues and their resolutions
- To provide periodic update to the Board on its work, finding and recommendations
- To review any risk and/or compliance issues raised by the HKMA which are considered significant by the Head of Group Risk, Group Head of Compliance, Group Head of AML and Financial Crime Risk or Head of Internal Audit
- To oversee the resourcing for the risk management and compliance functions of the Bank, including anti-money laundering and counter-terrorist financing
- To interact with the AC to ensure consistency and compatibility in actions and minimize any potential gaps in risk management oversight
- To promote sound risk governance and a strong risk management culture and provide guidance and oversight on the development of risk management strategies as well as the risk tolerance and risk appetite of the Bank

RISK APPETITE FRAMEWORK

The Bank's risk appetite is defined as the level of risk the Bank is willing to take, having regard to its resources and financial capacity, strategic objectives and regulatory constraints (e.g. capital and liquidity requirements), with the expectation that the risk taken or to be pursued is sufficiently compensated or at acceptable return with reasonable confidence level. Against this background, the risk appetite framework is comprised of a Risk Appetite Statement ("RAS") and a set of risk tolerance is established. The RAS covers four key dimensions of the risks and returns of the Bank, namely the target returns to shareholders, earnings volatility, solvency and others while more granular risk types including credit risk, market risk, liquidity risk, interest rate risk and other less quantifiable risks (e.g. operational risk, reputation risk and strategic risk) are controlled under different risk limits and risk mitigation measures that constitute the risk tolerance of the Bank.

The RAS is a high level statement which sets out the risk-return requirements as well as the risk taking capacity of the Bank, taking into account its financial and capital strength and covers a wide range of metrics including return on equity, liquidity maintenance ratio, leverage ratio and measures of impact on profitability and capital adequacy ratio under selected stress scenarios, etc. Moreover, to ensure that the Bank's operations and risk taking activities are in line with the RAS, the Bank has adopted a set of risk tolerance levels to govern and control specific categories of risk, which is made up of major quantitative risk limits as well as some qualitative measures.

RISK APPETITE FRAMEWORK (continued)

As for the process of risk appetite setting, the Board determines the optimal risk appetite having regard to the Bank's capital, risk and strategy. In addition, the Board is responsible for overseeing the development and monitoring of the Bank's risk appetite to ensure that the Bank is able to achieve sustainable growth in pursuing its business strategy, operating within its tolerance levels. The RAS is designed to be consistent with the Bank's business strategy, risk and return balance and market outlook, for the medium to longer term and it is not intended to be changed frequently, unless there are significant changes in the Bank's strategy and operating environment. Furthermore, during the annual and other ad hoc reviews of the RAS framework, risk scenarios covering different courses of development of the global economies including highly stressed scenarios are developed for the purpose of conducting the firm-wide stress test. The results together with regulatory developments will be taken as one of the key considerations in the review of risk appetite.

Compliance with the RAS and risk tolerance is monitored and reported to the Board and the RMCC respectively on a quarterly basis to ensure that the businesses of the Bank are conducted within the requirements of the risk appetite framework. Moreover, the risk appetite framework and major risk appetite limits are subject to the review by the RMCC and the Board on an annual basis, when the annual budget and medium term plan of the Bank are reviewed and approved, or new business and risk strategies are to be approved.

RECRUITMENT AND SELECTION OF MEMBERS OF THE BOARD

The Bank uses a formal, considered and transparent procedure for the appointment of new Directors. The proposed appointment will first be reviewed by the NRC, taking into account the balance of skills, knowledge and experience on the Board. Upon recommendation of the NRC, the proposed appointment will then be reviewed and, if thought fit, approved by the Board after due deliberation.

In accordance with the requirement under the Banking Ordinance, approval from the HKMA will need to be sought prior to the appointment of any person as a Director of the Bank.

The Bank issues appointment letters to each of the INEDs, setting out the terms and conditions of their appointments. For proposed appointment as INEDs of the Bank, the factors as laid down in the HKMA's Guidance on Empowerment of INEDs will be considered to assess the independence of a proposed INED of the Bank. The same factors will be revisited to reassess the independence of any INED who has served the Board of the Bank for more than 9 years, where applicable.

Pursuant to the Board Appointment and Succession Policy of the Bank, the Board or NRC should satisfy itself that the candidate nominated for appointment is a fit and proper person for appointment, taking into account the following features and attributes of the candidate:-

- age
- education background and professional qualification
- experience, especially working and commercial experience
- stature and reputation in the community
- capability
- professional and/ or business management skills
- track record
- independence of mind (particularly in the case of non-executive directors and INEDs)
- any financial or other interest in the business of the Bank
- other directorship
- intellectual strength
- fitness and propriety, with reference to the seventh schedule to the Banking Ordinance

RECRUITMENT AND SELECTION OF MEMBERS OF THE BOARD (continued)

Candidates as proposed Board members should not have any conflict of interest that may impede their ability to perform their duties independently and objectively or subject them to undue influence from:-

- personal, professional or other economic relationships with other members of the board or management (or with other entities within the group)
- other persons including shareholders
- relationship arising from or connected to past or present positions held

A Board director candidate has to confirm that there is no conflict of interest prior to his/her appointment, apart from clearance under section 83 of the Banking Ordinance relating to connected lending.

REMUNERATION INFORMATION

Remuneration information as set out in CG-5 had been disclosed in the Financial Statements of the Bank for the year ended 31 December 2017, which was approved and authorized for issue by the Board of Directors of the Bank on 20 March 2018, and can be obtained at the Bank's website at www.dahsing.com/html/en/about_us/financial.html.

MAJOR SHARE OWNERSHIP AND VOTING RIGHTS AND RELATED-PARTY TRANSACTIONS

The Bank is a wholly owned subsidiary of Dah Sing Banking Group Limited. The ultimate holding company of the Bank is Dah Sing Financial Holdings Limited.

The Bank's related party transactions are set out in Note 43 to the Financial Statements of the Bank for the year ended 31 December 2017, which can be obtained at the Bank's website at www.dahsing.com/html/en/about_us/financial.html. The Bank entered into various continuing connected transactions with its holding companies, and other fellow subsidiaries on normal commercial terms. These transactions include interbank placements and deposit taking, marketing and distribution of life and general insurance products and the provision of other banking services. In addition, the Bank also provides computer and administrative services to its ultimate holding company and its fellow subsidiaries, leases and sub-leases properties to fellow subsidiaries.

OTHERS

During the 6-month period ended 30 June 2018, the Bank did not engage in any material and complex or non-transparent structure that is difficult for supervisors and stakeholders of the Bank to reasonably assess the risks to which it is exposed.

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 2018 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, 21 August 2018