



ANNOUNCEMENT OF 2018 INTERIM RESULTS

The Directors of Dah Sing Banking Group Limited (the “Company”) are pleased to present the interim results and condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018. The unaudited profit attributable to shareholders after non-controlling interests for the six months ended 30 June 2018 was HK\$1,346.9 million.

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

The unaudited 2018 interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June

HK\$'000	Note	2018	2017	Variance %
Interest income		3,159,681	2,764,112	
Interest expense		(1,045,928)	(884,083)	
Net interest income	3	2,113,753	1,880,029	12.4
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 income	5	110,400	90,373	
Other operating income	6	38,871	36,697	
Operating income		2,880,093	2,464,795	16.8
Operating expenses	7	(1,281,179)	(1,226,489)	4.5
Operating profit before impairment losses		1,598,914	1,238,306	29.1
Credit impairment losses	8	(38,185)	(167,275)	(77.2)
Operating profit before gains and losses on certain investments and fixed assets		1,560,729	1,071,031	45.7
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		1,580,453	1,476,526	7.0
Taxation	10	(233,594)	(177,508)	
Profit for the period		1,346,859	1,299,018	3.7
Loss attributable to non-controlling interests		17	16	
Profit attributable to Shareholders of the Company		1,346,876	1,299,034	3.7
Interim dividend		182,618	154,423	
Earnings per share				
Basic	11	HK\$0.96	HK\$0.93	
Diluted	11	HK\$0.96	HK\$0.92	

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

HK\$'000	2018	2017
Profit for the period	1,346,859	1,299,018
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	-	232,949
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)	168,013
Exchange differences arising on translation of the financial statements of foreign entities	(93,905)	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	(346,131)	334,129
Total comprehensive income for the period, net of tax	1,000,728	1,633,147
Attributable to:		
Non-controlling interests	(17)	(16)
Shareholders of the Company	1,000,745	1,633,163
Total comprehensive income for the period, net of tax	1,000,728	1,633,147

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$'000	Note	As at 30 Jun 2018	As at 31 Dec 2017
ASSETS			
Cash and balances with banks		12,881,771	17,344,554
Placements with banks maturing between one and twelve months		9,894,998	11,856,241
Trading securities	12	5,356,733	8,837,554
Financial assets at fair value through profit or loss	12	538,805	700,105
Derivative financial instruments	13	1,019,143	897,967
Advances and other accounts	14	130,275,148	126,747,484
Financial assets at fair value through other comprehensive income	16	38,138,343	-
Available-for-sale securities	16	-	38,223,264
Financial assets at amortised cost	17	10,745,944	-
Held-to-maturity securities	17	-	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		2,025,087	2,053,557
Investment properties		1,179,440	1,179,440
Current income tax assets		-	137
Deferred income tax assets		124,505	81,492
Total assets		216,870,086	219,241,249
LIABILITIES			
Deposits from banks		2,208,517	2,277,391
Derivative financial instruments	13	575,070	682,784
Trading liabilities		5,343,254	8,668,508
Deposits from customers		163,653,222	162,459,535
Certificates of deposit issued		6,680,490	7,183,706
Subordinated notes		5,438,794	5,487,366
Other accounts and accruals		6,653,631	6,059,987
Current income tax liabilities		452,798	453,597
Deferred income tax liabilities		19,388	89,751
Total liabilities		191,025,164	193,362,625
EQUITY			
Non-controlling interests		15,301	15,318
Equity attributable to the Company's shareholders			
Share capital		6,883,659	6,873,813
Other reserves (including retained earnings)		18,047,375	18,090,906
Shareholders' funds	18	24,931,034	24,964,719
Additional equity instruments		898,587	898,587
Total equity		25,844,922	25,878,624
Total equity and liabilities		216,870,086	219,241,249

Note:

1. General information

Dah Sing Banking Group Limited (the “Company”) is a bank holding company. Its principal subsidiary is Dah Sing Bank, Limited (“DSB”), which is a licensed bank in Hong Kong. The Company together with its subsidiaries (collectively the “Group”) provide banking, financial and other related services.

2. Unaudited financial statements and accounting policies

The information set out in this interim results announcement does not constitute statutory financial statements.

Certain financial information in this interim results announcement 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 condensed consolidated financial statements are consistent with those used and described in the Group’s annual audited financial statements for the year ended 31 December 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 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)	29,200,795	Amortised cost	29,196,780
Advances and other accounts	Amortised cost (Loans and receivables)	126,747,484	Amortised cost	126,453,405
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)	38,223,264	Fair value through other comprehensive income	33,581,089
	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)	671,676	Fair value through profit or loss (Categorised based on requirements of HKFRS 9)	671,676

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	17,344,554	(731)	-	-	-	-	17,343,823
Placement with banks maturing between one and twelve months	11,856,241	(3,284)	-	-	-	-	11,852,957
Advances and other accounts	126,747,484	(294,079)	-	-	-	-	126,453,405
Financial assets at fair value through other comprehensive income	-	-	33,581,089	-	-	-	33,581,089
Available-for-sale securities	38,223,264	-	(33,581,089)	(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	6,059,987	140,456	-	-	-	-	6,200,443
Deferred income tax liabilities	89,751	-	-	7,028	-	-	96,779
Retained earnings	16,921,198	(380,254)	-	-	(284,490)	-	16,256,454
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)

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.

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 22 August 2018.

These interim condensed consolidated financial statements have not been audited.

3. Net interest income

For the six months ended 30 June

HK\$'000	2018	2017
Interest income		
Cash and balances with banks	252,372	181,165
Investments in securities	654,561	486,552
Advances and other accounts	2,252,748	2,096,395
	3,159,681	2,764,112
Interest expense		
Deposits from banks/ Deposits from customers	812,009	692,602
Certificates of deposit issued	59,392	52,795
Subordinated notes	133,910	119,113
Others	40,617	19,573
	1,045,928	884,083
Included within interest income		
Interest income on financial assets not at fair value through profit or loss	3,121,285	2,742,221
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	1,012,020	864,210

4. Net fee and commission income

For the six months ended 30 June

HK\$'000	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 income

For the six months ended 30 June

HK\$'000	2018	2017
Net (loss)/ gain arising from dealing in foreign currencies	(26,632)	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	129,352	59,644
	110,400	90,373

6. Other operating income

For the six months ended 30 June

HK\$'000	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

HK\$'000	2018	2017
Employee compensation and benefit expenses (including directors' remuneration)	877,454	825,801
Premises and other fixed assets expenses, excluding depreciation	162,579	158,260
Depreciation	86,933	83,238
Advertising and promotion costs	41,548	35,336
Printing, stationery and postage	23,882	24,601
Amortisation expenses of intangible assets	-	194
Others	88,783	99,059
	1,281,179	1,226,489

8. Credit impairment losses

For the six months ended 30 June

HK\$'000

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
	<u>167,275</u>

Of which

- new and additional allowances (including amounts directly written off in the period)	273,667
- releases	(86,027)
- recoveries	(20,365)
	<u>167,275</u>

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 DSB's capital adequacy. The calculation of DSB's capital adequacy does not include the retained earnings from the Investment, except for BOCQ cash dividend received by DSB. 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 DSB'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

HK\$'000	2018	2017
Current income tax		
- Hong Kong profits tax	207,134	158,285
- Overseas taxation	24,217	20,180
Deferred income tax		
- Origination and reversal of temporary differences	2,243	(957)
Taxation	<u>233,594</u>	<u>177,508</u>

11. Basic and diluted earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on earnings of HK\$1,346,876,000 and the weighted average number of 1,404,398,811 ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2018 is based on earnings of HK\$1,346,876,000 and the weighted average number of 1,404,926,811 ordinary shares in issue during the period after adjusting for the effect of all dilutive potential ordinary shares.

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on earnings of HK\$1,299,034,000 and the weighted average number of 1,403,496,139 ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2017 is based on earnings of HK\$1,299,034,000 and the weighted average number of 1,406,598,677 ordinary shares in issue during the period after adjusting for the effect of all dilutive potential ordinary shares.

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

HK\$'000	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	210,887	375,187
- Unlisted	-	324,918
	210,887	700,105
Categorised based on requirements of HKFRS 9:		
Debt securities:		
- Unlisted	327,918	-
	538,805	700,105
Total	5,895,538	9,537,659
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	538,805	700,105
	5,895,538	9,537,659

As at 30 June 2018 and 31 December 2017, there were no certificates of deposit held included in the above balances.

13. Derivative financial instruments

The notional principal amounts of outstanding derivatives contracts and their fair values as at 30 June 2018 were as follows:

HK\$'000	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and futures contracts	80,809,072	359,091	(399,240)
Currency options purchased and written	15,136,067	8,180	(8,081)
b) <i>Interest rate derivatives</i>			
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) <i>Equity derivatives</i>			
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) <i>Derivatives designated as fair value hedges</i>			
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)

13. Derivative financial instruments (Continued)

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

HK\$'000	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and futures contracts	82,495,665	581,964	(479,218)
Currency options purchased and written	12,675,402	7,543	(7,536)
b) <i>Interest rate derivatives</i>			
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) <i>Equity derivatives</i>			
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) <i>Derivatives designated as fair value hedges</i>			
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)

The credit risk weighted amounts of the above off-balance sheet exposures, before taken 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	769,244	871,350
Interest rate contracts	209,614	148,097
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.

14. Advances and other accounts

HK\$'000	As at 30 Jun 2018	As at 31 Dec 2017
Gross advances to customers	122,675,787	119,261,984
Less: impairment allowances	<u>(880,847)</u>	<u>(659,046)</u>
	121,794,940	118,602,938
Trade bills	4,130,109	4,065,401
Less: impairment allowances	<u>(2,261)</u>	<u>(14,229)</u>
	4,127,848	4,051,172
Other assets		
- Other accounts receivable and prepayment	4,370,397	4,104,805
Less: impairment allowances	<u>(18,037)</u>	<u>(11,431)</u>
	4,352,360	4,093,374
Advances and other accounts	130,275,148	126,747,484

14. Advances and other accounts (Continued)

(a) Impaired, overdue and rescheduled assets

(i) Impaired loans

HK\$'000	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. 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.

14. Advances and other accounts (Continued)

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

(ii) Gross amount of overdue loans

HK\$'000	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
	<u>660,456</u>	<u>0.54</u>	<u>800,779</u>	<u>0.68</u>
Market value of securities held against the secured overdue advances	<u>654,854</u>		<u>798,711</u>	
Secured overdue advances	454,486		593,375	
Unsecured overdue advances	<u>205,970</u>		<u>207,404</u>	
Impairment allowances	<u>245,836</u>		<u>258,988</u>	

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

(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	<u>335,610</u>	<u>0.27</u>	<u>344,868</u>	<u>0.29</u>
Impairment allowances	<u>119,875</u>		<u>1,640</u>	

14. Advances and other accounts (Continued)

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

(iv) Trade bills

HK\$'000	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	<u>102</u>	<u>10,868</u>
	<u>102</u>	<u>15,265</u>
Impairment allowances	<u>-</u>	<u>-</u>

(b) Repossessed collateral

Reposessed collateral held is as follows:

	As at 30 Jun 2018	As at 31 Dec 2017
Nature of assets		
Reposessed properties	157,319	282,643
Others	<u>7,496</u>	<u>21,343</u>
	<u>164,815</u>	<u>303,986</u>

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

Certain other properties in the Mainland China with a total estimated realisable value of HK\$62,759,000 (31 December 2017: HK\$65,433,000), which had been foreclosed and reposessed by the Group pursuant to orders issued by courts in the Mainland China, represent assets held by the Group for resale and have been reported under "Other assets". The relevant loans had been derecognised.

15. 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					<u>294,079</u>
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	<u>333,648</u>	<u>162,768</u>	<u>388,814</u>	<u>15,915</u>	<u>901,145</u>
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
	<u>333,648</u>	<u>162,768</u>	<u>388,814</u>	<u>15,915</u>	<u>901,145</u>

Abbreviations used:

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

15. 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
	<u>290,734</u>	<u>393,972</u>	<u>684,706</u>
At 31 December 2017			
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
	<u>290,734</u>	<u>393,972</u>	<u>684,706</u>

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

HK\$'000	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	5,584,737	5,894,077
	38,023,838	38,086,938
Equity securities:		
- Listed in Hong Kong	31,342	53,387
- Unlisted	83,163	82,939
	114,505	136,326
Total	38,138,343	38,223,264
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	29,320,196	28,771,658
	38,023,838	38,086,938
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	75	2,528
	38,138,343	38,223,264

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

HK\$'000	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

18. Shareholders' funds

HK\$'000	As at 30 Jun 2018	As at 31 Dec 2017
Share capital	6,883,659	6,873,813
Consolidation reserve	(220,986)	(220,986)
Premises revaluation reserve	270,120	270,120
Investment revaluation reserve	156,600	318,224
Exchange reserve	2,673	96,578
General reserve	700,254	700,254
Reserve for share-based compensation	3,570	5,518
Retained earnings	17,135,144	16,921,198
	24,931,034	24,964,719
Proposed dividend/ dividend paid included in retained earnings	182,618	435,474

DSB as a locally incorporated bank in Hong Kong 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, DSB 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.

19. 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:

HK\$'000	As at 30 Jun 2018	As at 31 Dec 2017
Expenditure contracted but not provided for	<u>43,455</u>	<u>55,462</u>

(b) Credit commitments

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

	Contract amount	
	As at 30 Jun 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	<u>225,725</u>	<u>-</u>
	<u>70,910,783</u>	<u>76,672,730</u>
	Credit risk weighted amount	
	As at 30 Jun 2018	As at 31 Dec 2017
Contingent liabilities and commitments	<u>1,454,093</u>	<u>1,473,077</u>

19. 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:

HK\$'000	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	186,754	182,950
Later than 1 year and not later than 5 years	495,581	460,828
Later than 5 years	179,737	233,800
	862,072	877,578

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	30,173
Later than 1 year and not later than 5 years	14,724	5,997
	39,851	36,170

20. 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.

20. Operating segment reporting (Continued)

For the six months ended 30 June 2018

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income	866,189	612,809	349,154	282,049	3,552	-	2,113,753
Non-interest income/ (expenses)	501,859	104,784	(59,096)	77,244	142,047	(498)	766,340
Total operating income	1,368,048	717,593	290,058	359,293	145,599	(498)	2,880,093
Operating expenses	(744,645)	(226,459)	(74,542)	(244,488)	8,457	498	(1,281,179)
Operating profit before credit impairment (losses)/ written back	623,403	491,134	215,516	114,805	154,056	-	1,598,914
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	154,313	-	1,560,729
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	166,698	-	1,580,453
Taxation (expenses)/ credit	(85,332)	(90,987)	(35,749)	(23,144)	1,618	-	(233,594)
Profit after taxation	431,839	458,688	180,695	107,321	168,316	-	1,346,859
For the six months ended 30 June 2018							
Depreciation and amortisation	35,050	7,403	2,719	20,855	20,906	-	86,933
As at 30 June 2018							
Segment assets	47,782,868	61,016,867	71,653,061	34,190,690	6,098,089	(3,871,489)	216,870,086
Segment liabilities	98,012,434	39,061,498	14,162,826	26,253,580	17,406,315	(3,871,489)	191,025,164

20. Operating segment reporting (Continued)

For the six months ended 30 June 2017

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/ (expenses)	797,846	574,330	273,813	266,040	(32,000)	-	1,880,029
Non-interest income/ (expenses)	347,135	91,187	(4,508)	63,705	87,745	(498)	584,766
Total operating income	1,144,981	665,517	269,305	329,745	55,745	(498)	2,464,795
Operating expenses	(701,818)	(219,521)	(77,179)	(235,984)	7,515	498	(1,226,489)
Operating profit before credit impairment (losses)/ written back	443,163	445,996	192,126	93,761	63,260	-	1,238,306
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	63,260	-	1,071,031
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	72,448	-	1,476,526
Taxation expenses	(52,399)	(65,978)	(35,556)	(14,423)	(9,152)	-	(177,508)
Profit after taxation	265,150	333,893	179,935	456,744	63,296	-	1,299,018
For the six months ended 30 June 2017							
Depreciation and amortisation	41,503	11,880	5,077	18,848	6,124	-	83,432
As at 31 December 2017							
Segment assets	47,248,470	58,264,178	76,464,789	36,485,129	5,559,622	(4,780,939)	219,241,249
Segment liabilities	96,100,034	37,301,046	18,335,487	28,208,303	18,198,694	(4,780,939)	193,362,625

20. 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.

HK\$'000	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the six months ended 30 June 2018				
Operating income	2,643,462	237,129	(498)	2,880,093
Profit before taxation	1,444,884	135,569	-	1,580,453
As at 30 June 2018				
Total assets	198,198,991	21,010,516	(2,339,421)	216,870,086
Total liabilities	175,226,790	18,137,795	(2,339,421)	191,025,164
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	74,572,971	2,223,500	(110,832)	76,685,639
	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the six months ended 30 June 2017				
Operating income	2,245,913	219,380	(498)	2,464,795
Profit before taxation	1,356,837	119,689	-	1,476,526
As at 31 December 2017				
Total assets	201,648,869	20,890,338	(3,297,958)	219,241,249
Total liabilities	178,499,376	18,161,207	(3,297,958)	193,362,625
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	82,665,576	2,304,555	(111,234)	84,858,897

21. 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

HK\$'000	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))	29,035,297	67.1	28,767,493	68.1
	122,675,787	71.6	119,261,984	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 DSB) 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.

21. 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:

HK\$'000	As at 30 Jun 2018				
	Outstanding balance	Impaired loans (Stage 3)	Gross advances overdue for over 3 months	Stage 3 impairment allowances	Stage1 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	29,035,297	248,647	152,453	102,493	89,294
	As 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	28,767,493	187,828	258,196	100,236	106,550

21. 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 DSB and its Mainland subsidiary bank only.

HK\$'000

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 DSB 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.

21. Additional analysis on claims and exposures (Continued)

(b) Mainland activities exposures (Continued)

HK\$'000

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
	<u>33,660,712</u>	<u>1,532,800</u>	<u>35,193,512</u>
Total assets of DSB and its Mainland subsidiary bank after provision	<u>201,200,282</u>		
On-balance sheet exposures as percentage of total assets	<u>16.73%</u>		

21. 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.

HK\$'000

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	13,762,383	52,064	52,064	18,565	17,510
Others	1,739,257	-	15,194	-	7,261
	122,675,787	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	13,200,459	26,302	60,870	13,205	38,645
Others	2,073,293	11	10,392	11	5,988
	119,261,984	755,264	800,779	280,641	378,405

21. 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		Total claims
			Non-bank financial institutions	Non- financial private sector	
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		Total claims
			Non-bank financial institutions	Non- financial private sector	
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

HK\$'000	As at 30 Jun 2018		As at 31 Dec 2017	
	Contract amount	% covered by collateral	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
	<u>70,910,783</u>	<u>5.7</u>	<u>76,672,730</u>	<u>5.5</u>

22. 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 June 2018				
	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions					
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 December 2017			
	US dollars	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions				
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)

23. 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	<u>18.4%</u>	<u>18.7%</u>

The capital adequacy ratio as at 30 June 2018 and 31 December 2017 represents the consolidated position of DSB (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.

DSB 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.

24. Liquidity maintenance ratio

	Six months ended 30 Jun 2018	Six months ended 30 Jun 2017	Year ended 31 Dec 2017
Liquidity maintenance ratio	<u>44.0%</u>	<u>43.8%</u>	<u>44.0%</u>

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

DSB 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	73.4%	76.3%
Cost to income ratio	44.5%	49.8%
Return on average total assets (annualised)	1.4%	1.3%
Adjusted return on average total assets (annualised) ^(Note 1)	1.6%	N/A
Return on average shareholders' funds (annualised)	12.4%	11.0%
Adjusted return on average shareholders' funds (annualised) ^(Note 1)	13.9%	N/A
Net interest margin	2.09%	1.94%
	As at 30 Jun 2018	As at 31 Dec 2017
Loan to deposit ratio	72.0%	70.3%

Note:

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

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK\$0.13 per share for 2018 payable on Friday, 21 September 2018 to shareholders whose names are on the Register of Shareholders at the close of business on Monday, 17 September 2018.

CLOSURE OF REGISTER OF SHAREHOLDERS

For determining shareholders' entitlement to receive the interim dividend:

Closure dates of Register of Shareholders (both days inclusive)	13 September 2018 (Thursday) to 17 September 2018 (Monday)
Latest time to lodge transfers	4:30 p.m. on 12 September 2018 (Wednesday)
Record date	17 September 2018 (Monday)
Interim dividend payment date	21 September 2018 (Friday)

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before the above latest time to lodge transfers.

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 45.7% to HK\$1,561 million, driven by both an improvement in operating income, and substantially lower loan impairment charges. Profit for the period grew much less, by 3.7%, 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\$234 million resulting from the much improved operating profit. For the first half of the year a dividend of HK\$0.13 per share 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 12.4% 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 49.8% to 44.5%.

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 1.6% and ROE of 13.9% 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, Dah Sing 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2018, the Company has applied the principles and complied with all the code provisions set out in the Corporate Governance Code (“CG Code”) under Appendix 14 of the Listing Rules, with the exception of code provision A.4.1.

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The Non-Executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the Company’s Articles of Association.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct for directors’ securities dealing (“Directors’ Dealing Code”) on terms no less exacting than the prevailing required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) under Appendix 10 of the Listing Rules. Following specific enquiry, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code and the Directors’ Dealing Code throughout the six months ended 30 June 2018.

UNAUDITED FINANCIAL STATEMENTS

The financial information in this interim results announcement is unaudited and does not constitute statutory financial statements.

AUDIT COMMITTEE

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2018.

REMUNERATION AND STAFF DEVELOPMENT

There have been no material changes to the information disclosed in the Company’s 2017 Annual Report in respect of the remuneration of employees, remuneration policies and training schemes.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of listed securities of the Company during the six months ended 30 June 2018.

INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (“HKEX”) at www.hkexnews.hk and Dah Sing Bank at www.dahsing.com.

The 2018 Interim Report of the Group containing all the information required by the Listing Rules will be published on the websites of HKEX and Dah Sing Bank in due course. Printed copies of the 2018 Interim Report will be sent to shareholders who have elected to receive printed versions of the Company’s corporate communications before the end of September 2018.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of the Company comprises Messrs. David Shou-Yeh Wong (Chairman), Hon-Hing Wong (Derek Wong) (Vice Chairman, Managing Director and Chief Executive), Gary Pak-Ling Wang (Group Chief Financial and Operating Officer) and Nicholas John Mayhew (Deputy Chief Executive) as Executive Directors; Mr. Jun Fujimoto as Non-Executive Director; Messrs. Robert Tsai-To Sze, Seng-Lee Chan, Yuen-Tin Ng and Blair Chilton Pickerell as Independent Non-Executive Directors.

By Order of the Board

Doris W. N. Wong

Company Secretary

Hong Kong, Wednesday, 22 August 2018