

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION

(Expressed in millions of Hong Kong dollars)

The following disclosures are prepared in accordance with the Banking (Disclosure) Rules.

1 Capital requirements for different types of risk

The Bank is required to compute its capital adequacy ratio on a combined basis that includes the Bank and its overseas branch. The investments in subsidiaries are deducted from the Bank's core capital and supplementary capital.

The capital adequacy ratios as at 31 December 2011 and 2010 were compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance.

Details of capital resources and capital adequacy ratios for the Bank are set out in Note 41(e) to the financial statements.

The Bank adopts the Foundation Internal Ratings-Based ("IRB") approach for the calculation of the risk-weighted assets for credit risk. The Bank also uses the Standardised approaches for the calculation of risk-weighted assets for market risk and operational risk.

The Bank uses the IRB approach for calculating the credit risks for the majority of its exposures and uses Standardised approach for certain exposures being exempted from the IRB approach for credit risk calculation.

Capital requirements are made by multiplying the Bank's risk-weighted amounts derived from the relevant calculation approach by 8% as defined in the Banking (Disclosure) Rules.

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1 Capital requirements for different types of risk (continued)

The following table indicates the capital requirements for different types of risk on each exposure class as at 31 December:

	2011 HK\$'M	2010 HK\$'M
Credit risk:		
IRB approach		
Retail exposures:		
Residential mortgages	382	289
Qualifying revolving retail exposures	1,119	1,041
Small business retail exposures	–	–
Other retail exposures to individuals	549	418
Wholesale exposures:		
Sovereign exposures	315	144
Bank exposures	2,461	1,358
Corporate exposures	8,107	7,542
Other exposures	332	456
	<u>13,265</u>	<u>11,248</u>
Standardised approach		
On-balance sheet		
Public sector entity exposures	13	17
Bank exposures	5	4
Corporate exposures	490	450
Regulatory retail exposures	54	35
Other exposures which are not past due exposures	269	334
Past due exposures	33	37
Off-balance sheet		
Off-balance sheet exposures other than over-the-counter derivative transactions	32	33
Over-the-counter derivative transactions	2	7
	<u>898</u>	<u>917</u>
Total capital requirements for credit risk	<u>14,163</u>	<u>12,165</u>
Market risk:		
Standardised approach		
Interest rate exposures	234	206
Foreign exchange exposures	25	62
	<u>259</u>	<u>268</u>
Total capital requirements for market risk	<u>259</u>	<u>268</u>
Total capital requirements for operational risk	<u>911</u>	<u>918</u>
Total capital requirements	<u><u>15,333</u></u>	<u><u>13,351</u></u>

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2 Credit risk assessed using IRB approach

(a) Internal rating system and process

Nature of exposures within IRB approach

Retail exposures comprise residential mortgages, qualifying revolving retail exposures, small business retail exposures and other retail exposures to individuals. These exposures are categorised into asset classes under the Retail IRB approach.

Wholesale exposures comprise sovereign, bank, corporate, corporate small business (which are assessed under Foundation IRB approach) and specialised lending (which is assessed under the supervisory slotting criteria approach).

Other exposures mainly comprise premises, equipment and other fixed assets and notes and coins, which are assessed under specific risk-weight approach.

Structure and control mechanisms for internal rating systems

The Bank adopts various rating systems for the different asset classes under Internal Ratings Based Approach ("IRBA"). There is a robust governance process for the development and approval of a credit risk model. Credit risk models developed are validated by an independent risk unit in the Bank to ensure they are fit for purpose. The models are placed through a rigorous review process prior to endorsement by the Hong Kong Credit Risk Committee of the Bank and the Group Credit Risk Committee of DBSH. The models have also been approved by the Board Risk Management Committee of the Bank and the Board Risk Management Committee of DBSH before use.

To ensure the adequacy and robustness of these rating systems on a continual basis, the Bank conducts regular performance monitoring on these rating systems and reports the results to the Hong Kong Credit Risk Committee and the Board Risk Management Committee of the Bank. This process will highlight any material deterioration in the credit systems for management's attention. In addition, an independent risk unit conducts formal validation annually for each of the rating systems. The validation processes are also subject to an independent review by Internal Audit.

Use of internal estimates

The internal credit risk ratings produced by credit rating models are used to calculate the IRB approach capital requirements. In addition, the ratings from the credit models are used as the basis to support the underwriting of credit, monitoring the performance of the portfolios, reporting, stress testing and risk rating migration.

Definitions of variables

The group-wide credit risk rating framework incorporates Probability of Default ("PD") of a counterparty and loss severity expressed in terms of Exposure-at-Default ("EAD") and Loss Given Default ("LGD").

PD expressed as a percentage, measures the probability that a borrower will default within one year.

LGD expressed as a percentage, is an estimate of the severity of the loss that the Bank will experience per unit of exposure in the event that the borrower defaults.

EAD is the expected amount of the exposure upon the default of the borrower, which is the sum of the on-balance sheet amounts and/or credit equivalent of the off-balance sheet amounts multiplied by a credit conversion factor determined in accordance with the Banking (Capital) Rules.

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2 Credit risk assessed using IRB approach (continued)

(a) Internal rating system and process (continued)

Methods and data for estimation and validation of the PD, LGD and EAD

For retail exposures, facilities/borrowers with homogenous nature of facility utilisation, payment history, delinquency trend and other transaction characteristics are segmented into homogenous risk pools. PD is estimated by each risk pool based on long run average of historical internal default experience with appropriate adjustment to reflect adverse economic condition to ensure conservatism for capital calculation. The LGD is estimated by dividing the loss by EAD. Loss represents the written-off or specific provision amounts plus collection costs at the end of LGD workout period after netting off recoveries. The LGD is calibrated to reflect adverse economic condition to ensure conservatism for capital calculation. For retail non-revolving exposures, EAD estimation is based on the sum of current outstanding. For retail revolving exposures, EAD estimation is referring to projected further draw down prior to defaults based on historical experience.

For wholesale exposures (including corporate, bank and sovereign exposures), PD generated by models and/or rating templates for individual counterparty is reviewed by credit risk managers. An Adjusted Counterparty Risk Rating ("ACRR") is assigned by taking the counterparty's PD and mapping it to the Bank's internal ACRR scale. The Bank applies the LGD determined by reference to the supervisory LGD estimates provided by the Hong Kong Monetary Authority ("HKMA") based on the nature of the collateral for its Foundation IRB portfolios and subordination. These supervisory LGD estimates are used in the computation of risk-weights and regulatory capital calculations for the portfolios. EAD estimation is subject to parameters set by the HKMA.

ACRR is estimated using a 11-grade scale expanded into 19 risk ratings to provide greater rating granularity that corresponds more closely to the Standard & Poor's ("S&P") rating scale. 14 of which are non-default ratings representing varying degrees of strength of financial condition, and 5 are default ratings. These scales are used group-wide for all distinct borrowers.

For specialised lending exposure, rating is assigned based on the borrower and transaction characteristics. The Bank uses supervisory slotting criteria approach in rating its regulatory specialised lending exposure by adopting the specialised lending rating templates. For income-producing real estate specialised lending exposure, the Bank adopts a credit scoring framework to enable a granular assessment of credit risk for the real estate financing activities aligning with the context of Hong Kong real estate market and the DBSH's real estate lending policies.

Model validation process enables the Bank to reaffirm the continuing appropriateness of the models. The model validation process involves quantitative and qualitative assessment of the model, data, systems and governance, which involves: i) quantitative validation to assess a model's discriminatory power, calibration and ratings stability analysis; ii) qualitative validation to address issues on model design, data integrity and internal use of a model. To ensure the models are reliable, an independent validation is conducted by Risk Management Group and an independent review on the validation process is carried out by Internal Audit.

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2 Credit risk assessed using IRB approach (continued)

(a) Internal rating system and process (continued)

The credit risk ratings for the wholesale exposures have been mapped to likely corresponding external rating equivalents. A description of the risk rating is provided in the following table to give a qualitative explanation of the risk benchmarks:

DBS Probability of Default (PD) Grade (ACRR)	Description of Risk Ratings	Internal Classification	Likely Corresponding HKMA Classification	S&P's Likely Ratings
1	Taking into account the impact of relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is exceptional	Exceptional	Pass	AAA
2	Taking into account the impact of the relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is excellent	Excellent	Pass	AA+, AA, AA-
3	More susceptible to adverse economic, social, geopolitical conditions and other circumstances. Capacity to meet its financial commitment is strong	Strong	Pass	A+, A, A-
4A/4B	Adequate protection against adverse economic, social or geopolitical conditions or changing circumstances. More likely to lead to a weakened capacity of the obligor to meet its financial commitment	Good	Pass	BBB+/BBB
5	Relatively worse off than an obligor rated "4B" but exhibits adequate protection parameters	Satisfactory	Pass	BBB-
6A/6B	Satisfactory capacity to meet its financial commitment but capacity may become inadequate due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Acceptable	Pass	BB+/BB
7A/7B	Marginal capacity to meet its financial commitment but capacity may become inadequate or uncertain due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Marginal	Pass	BB-
8A	Sub-marginal capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment	Sub-Marginal	Pass	B+
8B/8C	Low capacity to meet its financial commitment. Adverse business, financial, or economic condition will likely impair the obligor's capacity or willingness to meet its financial commitment	Special Caution	Special Mention	B/B-
9	Vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment. Likely to have little capacity to meet its financial commitment under adverse conditions	Sub-Performing	Sub-Standard (Non-Defaulting)	CCC – C
10 and Above	An obligor rated "10" and above is in default (as defined under Basel II)	Default	Sub-Standard and Below (Defaulting)	D

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2 Credit risk assessed using IRB approach (continued)

(b) Summary of credit exposures by IRB calculation approach

The following table summarises the Bank's credit exposures as at 31 December:

	2011 HK\$'M	2010 HK\$'M
Retail exposures:		
Retail IRB approach		
Residential mortgages	45,623	46,319
Qualifying revolving retail exposures	49,796	27,393
Small business retail exposures	36	39
Other retail exposures to individuals	8,538	8,488
Wholesale exposures:		
Foundation IRB approach		
Sovereign exposures	24,901	15,031
Bank exposures	73,308	67,020
Corporate exposures	76,649	69,088
Supervisory slotting criteria approach		
Specialised lending	17,689	16,784
Other exposures:		
Specific risk-weight approach	4,470	5,815
	<u>301,010</u>	<u>255,977</u>

(c) Retail exposures

Retail portfolios are categorised into asset classes under the Retail IRB approach, namely residential mortgages, qualifying revolving retail exposures, small business retail exposures and other retail exposures to individuals.

Within each asset class, exposures are managed on a portfolio basis. Each account is assigned to a risk pool, taking into consideration factors such as borrower characteristics and collateral type. Loss estimates are based on historical default and realised losses within a defined period. Business-specific credit risk policies and procedures including underwriting criteria, scoring models, approving authorities, frequency of asset quality and business strategy reviews; as well as systems, processes and techniques to monitor portfolio performance against benchmarks are in place. Risk models are being used for associated retail exposures to update risk level of each loan on a monthly basis, reflecting the broad usage of risk models in portfolio quality reviews in accordance with Basel II principles.

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2 Credit risk assessed using IRB approach (continued)

(c) Retail exposures (continued)

The following tables summarise the Bank's retail credit exposures by expected loss percentage ("EL%") range as at 31 December:

Residential mortgages

EL% range	2011 Exposure amount HK\$'M	2010 Exposure amount HK\$'M
Up to 0.10%	44,563	45,405
> 0.10% to 0.50%	–	432
> 0.50%	1,035	463
Default	25	19
	<u>45,623</u>	<u>46,319</u>

Qualifying revolving retail exposures

EL% range	2011 Exposure amount HK\$'M	2010 Exposure amount HK\$'M
Up to 5%	47,481	25,493
> 5%	2,274	1,845
Default	41	55
	<u>49,796</u>	<u>27,393</u>

Small business retail exposures

EL% range	2011 Exposure amount HK\$'M	2010 Exposure amount HK\$'M
Up to 0.3%	36	39
	<u>36</u>	<u>39</u>

Other retail exposures to individuals

EL% range	2011 Exposure amount HK\$'M	2010 Exposure amount HK\$'M
Up to 0.3%	5,092	5,765
> 0.3%	3,383	2,691
Default	63	32
	<u>8,538</u>	<u>8,488</u>

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2 Credit risk assessed using IRB approach (continued)

(d) Wholesale exposures

Wholesale exposures comprise sovereign, bank, corporate, corporate small business (which are assessed under Foundation IRB approach) and specialised lending (which is assessed under the supervisory slotting criteria approach).

Sovereign exposures are risk rated using internal risk rating models and guidelines in line with Foundation IRB portfolios. Country-specific macro economic risk factors, political risk factors, social risk factors and liquidity risk factors are reviewed objectively in the sovereign rating models to assess the sovereign credit risk in a disciplined and systematic approach.

Bank exposures are assessed using a bank rating model covering various credit risk factors such as capital levels and liquidity, asset quality, earnings, management and market sensitivity. The risk ratings derived are benchmarked against external credit risk ratings to ensure that the internal rating systems are well aligned and appropriately calibrated.

Corporate credits are assessed using approved models and reviewed by credit risk managers taking into consideration of relevant credit risk factors. Credit factors considered in the risk assessment process include the obligor's financial standing and outlook, industry and economic conditions, market position, access to capital and management strength. The Counterparty Risk Rating assigned to smaller business borrowers is primarily based on the borrower's financial position and strength, which are assessed via the use of a validated quantitative tool. This is supplemented by expert judgement of qualitative factors such as management strength by credit officers.

Credit ratings under the Foundation IRB portfolios are reviewed on an annual basis at a minimum unless credit conditions require more frequent assessment. The Counterparty Risk Rating process is reinforced by the Facility Risk Rating Framework which considers other exposure risk mitigations, such as collateral, third party guarantees and transfer risks.

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place.

- Subjective default: Obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realising security (if held).
- Technical default: Obligor is past due more than 90 days on any credit obligation to the Bank.

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2 Credit risk assessed using IRB approach (continued)

(d) Wholesale exposures (continued)

The following tables summarise the Bank's wholesale exposures as at 31 December:

Sovereign exposures

2011

Credit Risk Rating	PD range (%)	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
1-3	0.00 – 0.10	<u>24,901</u>	16

2010

Credit Risk Rating	PD range (%)	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
1-3	0.00 – 0.10	<u>15,031</u>	12

Bank exposures

2011

Credit Risk Rating	PD range (%)	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
1-3	0.03 – 0.10	35,276	17
4A/4B	0.10 – 0.33	22,117	50
5	0.33 – 0.47	5,774	66
6A/6B	0.47 – 1.11	5,862	88
7A-9	1.11 – 99.99	<u>4,279</u>	114
Total		<u>73,308</u>	

2010

Credit Risk Rating	PD range (%)	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
1-3	0.03 – 0.10	50,298	16
4A/4B	0.10 – 0.33	13,628	50
5	0.33 – 0.47	1,744	69
6A/6B	0.47 – 1.11	894	74
7A-9	1.11 – 99.99	<u>456</u>	107
Total		<u>67,020</u>	

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2 Credit risk assessed using IRB approach (continued)

(d) Wholesale exposures (continued)

Corporate exposures

2011

Credit Risk Rating	PD range (%)	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
1-3	0.03 – 0.10	505	22
4A/4B	0.10 – 0.33	900	52
5	0.33 – 0.47	2,560	69
6A/6B	0.47 – 1.11	7,724	86
7A-9	1.11 – 99.99	63,664	114
10A-11	100	1,296	113
Total		<u>76,649</u>	

2010

Credit Risk Rating	PD range (%)	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
1-3	0.03 – 0.10	447	22
4A/4B	0.10 – 0.33	1,191	52
5	0.33 – 0.47	541	67
6A/6B	0.47 – 1.11	7,519	79
7A-9	1.11 – 99.99	57,946	118
10A-11	100	1,444	72
Total		<u>69,088</u>	

Specialised lending

Specialised lending IRB portfolios represent real estate finance adopting the supervisory slotting criteria specified under the Banking (Capital) Rules. The supervisory slotting criteria guidelines under the supervisory rating categories are used to determine the risk-weights to calculate the credit risk-weighted exposures.

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2 Credit risk assessed using IRB approach (continued)

(d) Wholesale exposures (continued)

2011

Obligor grade	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
Strong	694	71
Good	9,343	92
Satisfactory	7,462	122
Weak	152	265
Default	38	–
Total	<u>17,689</u>	

2010

Obligor grade	Exposure amount HK\$'M	Exposure-weighted average risk-weight (%)
Strong	669	69
Good	8,380	90
Satisfactory	7,568	122
Weak	158	265
Default	9	–
Total	<u>16,784</u>	

(e) Policies for establishing provisions

The policies are set out in Note 2(g) to the financial statements, which describe the Group's accounting policies on the assessment of individual and collective impairment allowances on the financial assets.

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2 Credit risk assessed using IRB approach (continued)

(f) Comparison of rating estimates against actual outcome

Comparison of actual loss against expected loss

Actual loss refers to impairment allowances made in the Bank's income statement during the year.

Exposure classes	Actual loss for the year ended 31 December 2011 HK\$'M	Expected loss as at 31 December 2010 HK\$'M
Residential mortgages	–	18
Qualifying revolving retail exposures	68	496
Small business retail exposures	–	–
Other retail exposures to individuals	40	197
Sovereign exposures	–	16
Bank exposures	–	30
Corporate exposures	161	1,136
	<u>269</u>	<u>1,893</u>

Exposure classes	Actual loss for the year ended 31 December 2010 HK\$'M	Expected loss as at 31 December 2009 HK\$'M
Residential mortgages	–	23
Qualifying revolving retail exposures	69	414
Sovereign exposures	–	8
Bank exposures	–	26
Corporate exposures	80	836
	<u>149</u>	<u>1,307</u>

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2 Credit risk assessed using IRB approach (continued)

(f) Comparison of rating estimates against actual outcome (continued)

Comparison of actual default rate against estimated probability of default

Exposure classes	Actual percentage of default for the year ended 31 December 2011 %	Estimated 1-year probability of default as at 31 December 2010 %
Residential mortgages	0.03	0.18
Qualifying revolving retail exposures	0.49	1.22
Small business retail exposures	–	0.29
Other retail exposures to individuals	3.05	4.43
Sovereign exposures	–	0.02
Bank exposures	–	0.60
Corporate exposures	0.93	3.64

Exposure classes	Actual percentage of default for the year ended 31 December 2010 %	Estimated 1-year probability of default as at 31 December 2009 %
Residential mortgages	0.03	0.20
Qualifying revolving retail exposures	0.64	1.14
Sovereign exposures	–	0.02
Bank exposures	–	0.85
Corporate exposures	0.62	3.67

The actual default rate is measured by using the number of obligors or number of accounts defaulted, depending on the exposure class for the annual reporting period whereas the estimated probability of default is the long run average default rate estimated for 2011 and 2010.

Expected loss is a Basel II measure of expected future losses based on IRB models where PDs are more through-the-cycle and LGDs are on a downturn basis, floored by regulatory minimums. Actual loss is an accounting construct which includes impairment allowances and charge-offs for loans originated in prior years which defaulted in 2011 and 2010 respectively. The two measures of loss are therefore not directly comparable.

Comparative of rating estimates against actual outcome comparison is not applicable for small business retail exposures and other retail exposures to individuals as the credit risk of these exposures were not assessed using IRB approach prior to 2010.

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3 Credit risk assessed using Standardised approach

The following table indicates the exposure amounts and risk-weighted amounts for each class of exposure under the Standardised approach as at 31 December:

2011

	Total exposures HK\$'M	Total exposures after credit risk mitigation HK\$'M	Risk-weighted amount after credit risk mitigation HK\$'M
On-balance sheet			
Sovereign exposures	–	78	–
Public sector entity exposures	–	836	167
Bank exposures	56	56	56
Corporate exposures	7,068	6,128	6,128
Regulatory retail exposures	1,310	904	678
Other exposures which are not past due exposures	5,495	3,365	3,365
Past due exposures	335	335	406
	<u>14,264</u>	<u>11,702</u>	<u>10,800</u>
Off-balance sheet			
Off-balance sheet exposures other than over-the-counter derivative transactions	477	402	401
Over-the-counter derivative transactions	109	29	29
	<u>586</u>	<u>431</u>	<u>430</u>

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3 Credit risk assessed using Standardised approach (continued)

2010

	Total exposures HK\$'M	Total exposures after credit risk mitigation HK\$'M	Risk-weighted amount after credit risk mitigation HK\$'M
On-balance sheet			
Sovereign exposures	–	141	–
Public sector entity exposures	–	1,055	211
Bank exposures	55	55	55
Corporate exposures	6,017	5,623	5,623
Regulatory retail exposures	1,013	585	439
Other exposures which are not past due exposures	6,790	4,179	4,179
Past due exposures	365	365	458
	<u>14,240</u>	<u>12,003</u>	<u>10,965</u>
Off-balance sheet			
Off-balance sheet exposures other than over-the-counter derivative transactions	480	423	418
Over-the-counter derivative transactions	175	86	86
	<u>655</u>	<u>509</u>	<u>504</u>

Total exposures in the above table refer to principal amounts or credit equivalent amounts, as applicable, net of individual impairment allowances.

The exposure amounts and risk-weighted amounts in the above table do not take into account the credit assessment ratings assigned by the External Credit Assessment Institutions.

4 Credit risk mitigation

Credit risk mitigation techniques are taken into account when analysing credit risk-weighted asset amounts. Amounts are adjusted for recognised collateral or recognised guarantees allowed under the Banking (Capital) Rules.

Recognised collateral includes both financial and physical assets. Financial collateral consists of mainly cash deposits, debt securities and shares, while physical collateral includes land and buildings.

Eligible credit protection is also used to abate credit losses in the event that the exposure defaults. The policies and procedures on credit risk mitigation techniques are set out in Note 41(a) to the financial statements. The Bank adopts the comprehensive approach for credit risk mitigation and the impact on PD or LGD is based on the same guidelines for Foundation IRB portfolios.

As at 31 December 2011 and 2010, the credit and market risks concentrations within the credit risk mitigation used by the Bank are under a minimal level.

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4 Credit risk mitigation (continued)

Total exposures covered by recognised collateral or guarantees under Foundation IRB approach and Standardised approach as at 31 December:

2011

	Exposure amount covered by recognised collateral HK\$'M	Exposure amount covered by recognised guarantee HK\$'M
Foundation IRB approach		
Corporate exposures	24,035	2,937
Bank exposures	6	–
	<u>24,041</u>	<u>2,937</u>
Standardised approach		
Corporate exposures	869	71
Regulatory retail exposures	399	7
Other exposures which are not past due exposures	1,293	836
Past due exposures	68	18
Off-balance sheet exposures other than over-the-counter derivative transactions	76	–
Over-the-counter derivative transactions	80	–
	<u>2,785</u>	<u>932</u>
Total	<u><u>26,826</u></u>	<u><u>3,869</u></u>

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4 Credit risk mitigation (continued)

2010

	Exposure amount covered by recognised collateral HK\$'M	Exposure amount covered by recognised guarantee HK\$'M
Foundation IRB approach		
Corporate exposures	23,216	2,353
Bank exposures	152	–
	<u>23,368</u>	<u>2,353</u>
Standardised approach		
Corporate exposures	259	136
Regulatory retail exposures	422	6
Other exposures which are not past due exposures	1,556	1,055
Past due exposures	60	18
Off-balance sheet exposures other than over-the- counter derivative transactions	60	–
Over-the-counter derivative transactions	89	–
	<u>2,446</u>	<u>1,215</u>
Total	<u><u>25,814</u></u>	<u><u>3,568</u></u>

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5 Counterparty credit risk-related exposures

The analysis of the credit equivalent amounts and risk-weighted amounts after taking into account the recognised collateral and effect of valid bilateral netting agreements for over-the-counter derivative contracts as at 31 December is as follows:

	2011 HK\$'M	2010 HK\$'M
Exposures under IRB approach		
Positive fair values	6,999	7,974
Potential future exposures	<u>6,602</u>	<u>5,794</u>
Gross credit equivalent amounts	13,601	13,768
Comprising:		
– Bank exposures	6,354	6,414
– Corporate exposures	<u>7,247</u>	<u>7,354</u>
Gross credit equivalent amount	13,601	13,768
Less : Effects of netting arrangement	<u>(4,860)</u>	<u>(5,342)</u>
Credit equivalent amount after netting	8,741	8,426
Less: Collateral amount		
– Recognised financial collateral	(19)	(459)
– Other eligible collateral	<u>(14)</u>	<u>(535)</u>
	<u><u>8,708</u></u>	<u><u>7,432</u></u>
Exposures under Standardised approach		
Positive fair values	46	71
Potential future exposures	<u>62</u>	<u>104</u>
Gross credit equivalent amounts	108	175
Comprising:		
– Exchange rate contracts	82	119
– Interest rate contracts	18	29
– Equity contracts	<u>8</u>	<u>27</u>
	108	175
Less: Recognised financial collateral	<u>(80)</u>	<u>(89)</u>
	<u><u>28</u></u>	<u><u>86</u></u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

(Expressed in millions of Hong Kong dollars)

5 Counterparty credit risk-related exposures (continued)

	2011 HK\$'M	2010 HK\$'M
Exposures under IRB approach		
Risk-weighted amount		
– Bank exposures	240	171
– Corporate exposures	9,818	9,227
	<u>10,058</u>	<u>9,398</u>
Exposures under Standardised approach		
Risk-weighted amount		
– Exchange rate contracts	27	80
– Equity contracts	2	6
	<u>29</u>	<u>86</u>
	<u><u>10,087</u></u>	<u><u>9,484</u></u>

There are no outstanding repo-style transactions and credit derivative contracts which create exposures to counterparty credit risk as at 31 December 2011 (2010: Nil).

The current exposure method is used for calculating the Bank's net credit exposure and regulatory capital for counterparty exposures, using the mark-to-market exposures with an appropriate add-on factor for potential future exposures.

6 Liquidity ratio

The average liquidity ratio for the year, calculated in accordance with the Fourth Schedule of the Banking Ordinance, is as follows:

	2011	2010
Average liquidity ratio	<u><u>33.4%</u></u>	<u><u>32.1%</u></u>

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of the Hong Kong office of the Bank.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

(Expressed in millions of Hong Kong dollars)

7 Segmental information

(a) Segmental information by class of business

	Group			
	Commercial and retail banking HK\$'M	Treasury HK\$'M	Others HK\$'M	Total HK\$'M
2011				
Total income	<u>6,004</u>	<u>413</u>	<u>337</u>	<u>6,754</u>
Profit before impairment allowances for credit and other losses	<u>2,663</u>	<u>254</u>	<u>346</u>	<u>3,263</u>
Profit before income tax	<u>2,800</u>	<u>257</u>	<u>15</u>	<u>3,072</u>
Operating assets	<u>194,585</u>	<u>77,208</u>	<u>7,301</u>	<u>279,094</u>
2010				
Total income	<u>5,569</u>	<u>588</u>	<u>555</u>	<u>6,712</u>
Profit before impairment allowances for credit and other losses	<u>2,057</u>	<u>425</u>	<u>547</u>	<u>3,029</u>
Profit before income tax	<u>1,744</u>	<u>430</u>	<u>626</u>	<u>2,800</u>
Operating assets	<u>148,765</u>	<u>90,615</u>	<u>8,042</u>	<u>247,422</u>

Commercial and retail banking business mainly comprises deposit account services, residential mortgage and other consumer lending, credit card services, corporate lending, trade finance and international banking.

Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, trading activities and management of investment securities and the overall funding of the Banking Group.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

(Expressed in millions of Hong Kong dollars)

7 Segmental information (continued)

(b) Segmental information by booking location

Over 90% of the Group's total income, profit before income tax, total assets, total liabilities, contingent liabilities and commitments are booked in Hong Kong.

(c) Cross-border claims

Analysis of cross-border claims by location and type of counterparty is as follows:

	Group			
	Banks HK\$'M	Public sector entities HK\$'M	Others HK\$'M	Total HK\$'M
2011				
Asia Pacific excluding Hong Kong	73,356	2,083	13,749	89,188
North and South America	2,321	2,295	537	5,153
Europe	1,969	7	451	2,427
Others	111	159	1,379	1,649
	<u>77,757</u>	<u>4,544</u>	<u>16,116</u>	<u>98,417</u>
2010				
Asia Pacific excluding Hong Kong	47,793	1,801	9,128	58,722
North and South America	2,862	3,354	577	6,793
Europe	2,774	7	445	3,226
Others	17	161	1,750	1,928
	<u>53,446</u>	<u>5,323</u>	<u>11,900</u>	<u>70,669</u>

The above analysis by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies if the claim is guaranteed by a party in a country which is different from that of the counterparty.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

(Expressed in millions of Hong Kong dollars)

8 Advances to customers

(a) Advances to customers by loan usage

	Bank			
	2011		2010	
	Outstanding balance HK\$'M	Balance covered by collateral HK\$'M	Outstanding balance HK\$'M	Balance covered by collateral HK\$'M
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,108	2,100	2,030	2,029
– Property investment	30,294	29,363	27,907	27,171
– Financial concerns	1,701	1,297	983	670
– Stockbrokers	12	8	333	140
– Wholesale and retail trade	17,352	13,617	12,546	11,386
– Manufacturing	11,770	8,582	10,425	7,173
– Transport and transport equipment	10,816	10,395	11,280	10,950
– Recreational activities	28	28	37	33
– Information technology	114	86	165	105
– Others	5,431	4,118	4,756	3,519
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	851	851	1,076	1,076
– Loans for the purchase of other residential properties	39,688	39,688	41,734	41,734
– Credit card advances	6,408	–	6,072	–
– Others	8,039	2,946	7,695	3,326
	134,612	113,079	127,039	109,312
Trade finance	56,914	10,355	20,338	9,062
Loans for use outside Hong Kong	4,393	2,598	4,481	2,739
	195,919	126,032	151,858	121,113

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

(Expressed in millions of Hong Kong dollars)

8 Advances to customers (continued)

(b) Overdue advances to customers

The overdue advances are analysed as follows:

	Bank			
	2011		2010	
	HK\$'M	% of gross advances to customers	HK\$'M	% of gross advances to customers
Six months or less but over three months	180	0.09	64	0.04
One year or less but over six months	134	0.07	125	0.08
Over one year	1,209	0.62	1,511	1.00
	<u>1,523</u>	<u>0.78</u>	<u>1,700</u>	<u>1.12</u>
Individual impairment allowances made in respect of the above overdue advances	<u>967</u>		<u>1,262</u>	
Current market value of collateral held against the covered portion of the above overdue advances	<u>1,233</u>		<u>1,111</u>	
Covered portion of the above overdue advances	<u>688</u>		<u>659</u>	
Uncovered portion of the above overdue advances	<u>835</u>		<u>1,041</u>	

(c) Rescheduled advances

The rescheduled advances (net of those which have been overdue for over three months and reported in item (b) above) are analysed as follows:

	Bank			
	2011		2010	
	HK\$'M	% of gross advances to customers	HK\$'M	% of gross advances to customers
Rescheduled advances	<u>326</u>	0.17	<u>345</u>	0.23

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

(Expressed in millions of Hong Kong dollars)

8 Advances to customers (continued)

(d) Repossessed assets

As at 31 December 2011, repossessed assets of the Bank amounted to HK\$52 million (2010: HK\$51 million).

(e) Non-bank Mainland exposures

Bank	On-balance sheet exposures HK\$'M	Off-balance sheet exposures HK\$'M	Total HK\$'M	Individual impairment allowances HK\$'M
2011				
Mainland entities	499	29	528	21
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,152	1,679	6,831	244
Other counterparties where the exposures are considered to be non-bank Mainland exposures	56	13	69	–
	<u>5,707</u>	<u>1,721</u>	<u>7,428</u>	<u>265</u>
2010				
Mainland entities	67	52	119	21
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,633	1,817	6,450	282
Other counterparties where the exposures are considered to be non-bank Mainland exposures	78	20	98	–
	<u>4,778</u>	<u>1,889</u>	<u>6,667</u>	<u>303</u>

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

(Expressed in millions of Hong Kong dollars)

9 Currency concentration

The table below summarises the Group's assets and liabilities at carrying amounts, categorised by currency:

	USD HK\$'M	EUR HK\$'M	CNY HK\$'M	AUD HK\$'M	Others HK\$'M	Total HK\$'M
2011						
Hong Kong dollar equivalents						
Spot assets	69,872	1,138	32,824	6,637	7,639	118,110
Spot liabilities	(57,780)	(4,646)	(28,548)	(10,062)	(10,968)	(112,004)
Forward purchases	130,174	3,887	115,895	4,150	4,658	258,764
Forward sales	(141,881)	(311)	(120,101)	(643)	(1,412)	(264,348)
Net options position	(35)	(4)	–	19	64	44
Net long / (short) non-structural position	<u>350</u>	<u>64</u>	<u>70</u>	<u>101</u>	<u>(19)</u>	<u>566</u>
Net structural position	<u>–</u>	<u>–</u>	<u>31</u>	<u>–</u>	<u>(40)</u>	<u>(9)</u>
2010						
Hong Kong dollar equivalents						
Spot assets	55,463	2,034	10,754	7,372	9,613	85,236
Spot liabilities	(56,970)	(2,839)	(7,584)	(7,255)	(8,736)	(83,384)
Forward purchases	49,438	1,789	11,512	985	2,157	65,881
Forward sales	(48,661)	(988)	(14,369)	(1,033)	(2,987)	(68,038)
Net options position	194	9	–	(89)	71	185
Net (short) / long non-structural position	<u>(536)</u>	<u>5</u>	<u>313</u>	<u>(20)</u>	<u>118</u>	<u>(120)</u>
Net structural position	<u>–</u>	<u>–</u>	<u>29</u>	<u>–</u>	<u>(47)</u>	<u>(18)</u>

The net structural position as at 31 December 2011 comprised the Group's unremitted earnings of HK\$40 million equivalent (2010: HK\$47 million) from a Macau Pataca investment in Macau, and Renminbi investments of HK\$31 million equivalent (2010: HK\$29 million) in the Mainland China.

The net options position is calculated based on the delta-weighted position as set out in the prudential return "Foreign Currency Position" issued by the Hong Kong Monetary Authority.