星 展 銀 行 （ 香 港 ） 有 限 公 司

DBS BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

Annual Report 2015

DBS Bank (Hong Kong) Limited and its Subsidiaries

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DBS Bank (Hong Kong) Limited and its Subsidiaries

REPORT OF THE DIRECTORS

The directors of DBS Bank (Hong Kong) Limited (the "Bank") submit their report together with the audited financial statements of the Bank and its subsidiaries (together the "Group") for the year ended 31 December 2015.

Principal activities

The principal activity of the Bank is the provision of banking and related financial services. The principal activities of the subsidiaries are shown in Note 22 of the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2015 are set out in the consolidated income statement on page 5.

The first interim dividend of HK$0.143 per share totalling HK$1,000 million and the second interim dividend of HK$0.214 per share totalling HK$1,500 million were paid on 23 June 2015 and 27 November 2015 respectively for the year ended 31 December 2015 (2014: the first interim dividend of HK$1,000 million and the second interim dividend of HK$500 million).

The directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

Share capital

Details of the movements in the share capital during the year are set out in Note 30 to the financial statements.

No shares or debentures were issued by the Bank during the year.

The Bank did not enter into any equity-linked agreement relating to the shares of the Bank during the year.

Donations

Donations made by the Group during the year amounted to HK$495,000 (2014: HK$724,000).

Directors

The directors of the Bank during the year and up to the date of this report are:

Seah Lim Huat, Peter – Chairman	
Piyush Gupta – Vice Chairman	
J. E. Sebastian Paredes Muirragui – Chief Executive	
Alexander Reid Hamilton	(resigned on 21 April 2015)
Dominic Chiu Fai Ho	
Ng Chee Siong, Robert	
Kwok Kwok Chuen	
Yip Dicky Peter	
Nancy Sau Ling Tse	(appointed on 14 July 2015)

In accordance with the articles of association of the Bank, Ms Nancy Sau Ling Tse will retire from office at the forthcoming Annual General Meeting and, being eligible, offer herself for re-election.

Mr. Alexander Reid Hamilton resigned on 21 April 2015 as an independent non-executive director of the Bank. Mr. Alexander Reid Hamilton has confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholders of the Bank.

During the year and up to the date of this report, Mr. J. E. Sebastian Paredes Muirragui is also a director of the Bank's subsidiaries. Other directors of the Bank's subsidiaries during the year and up to the date of this report include Mr. David John Lynch; Mr. David Maxwell Sceats; Mr. Januar Tjandra; Mr. Peter Henry Triggs; Ms Phau Yee Meng, Pearlyn; Ms Mok Tze Shan, Teresa and Mr. V Arivazhagan. Mr. Olivier Edouard Crespin resigned as a director of the Bank's subsidiaries, DBS Trustee H.K. (New Zealand) Limited and DBS Trustee (Hong Kong) Limited, on 4 February 2015 and 24 August 2015 respectively. Mr. Domenico Fuda resigned as a director of the Bank's subsidiary, DBS COMPASS Limited, on 8 October 2015.

Directors' material interests in significant transactions, arrangements and contracts

During the year, the Bank has granted a banking facility ("Facility") of HK$1,300 million to Great Maker Limited, in which Sino Land Company Limited ("Sino Land") has 30% indirect shareholding interest, in the ordinary course of business and on normal commercial terms. Sino Land granted in favour of the Bank a 30% pro-rated and several corporate guarantee for the Facility. Mr. Ng Chee Siong, Robert is interested in the Facility as he is the chairman and a substantial shareholder of Sino Land.

No other transactions, arrangements and contracts of significance in relation to the Bank's business, to which the Bank or any of its subsidiaries or its holding companies or any subsidiary of its holding companies was a party and in which a director of the Bank or the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interest in shares

As at the end of the year or at any time during the year, the DBSH Share Plan (the "Share Plan") was the only arrangement that enabled a director of the Bank to acquire benefits by means of the acquisition of shares of DBS Group Holdings Ltd ("DBSH"), the ultimate holding company of the Bank, or to be awarded shares of DBSH (or their equivalent cash value).

The Share Plan is granted to DBSH Group executives as determined by the Compensation and Management Development Committee ("CMDC") of DBSH appointed to administer the Share Plan from time to time. Participants are awarded shares of DBSH, their equivalent cash value or a combination of both.

Awards consist of the main award and the retention award (being 20% of the main award). The vesting of the main award is staggered between two to four years after grant, i.e. 33% of the shares comprised in the main award will vest 2 years after grant; another 33% will vest in the third year; and the remainder 34% plus the retention award will vest four years after grant. The fair value of the shares awarded is computed based on the market price of the ordinary shares at the time of the award.

During the year, the following directors were eligible to receive awards under the Share Plan as set out below:

1) A total of 25,496 share awards were granted to Mr. Seah Lim Huat, Peter and 38,102 share awards were vested in him;

2) A total of 312,085 share awards were granted to Mr. Piyush Gupta and 319,347 share awards were vested in him;

3) A total of 82,726 share awards were granted to Mr. J. E. Sebastian Paredes Muirragui and 39,437 share awards were vested in him.

Apart from the above, at no time during the year was the Bank or any of its subsidiaries or its holding companies or any subsidiaries of its holding companies a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporates.

Permitted indemnity provisions

The articles of association of the Bank provide that every director of the Bank shall be entitled to be indemnified out of the funds of the Bank against all liabilities incurred by him/her as a director in defending any proceedings in which judgement is given in his/her favour, or in which he/she is acquitted or in connection with relief granted to him/her by the court.

All directors of the Bank and its associated companies are covered by the Directors, Officers and Company Liability Insurance Policy taken out by DBSH.

Management contracts

On 31 October 2012, the Bank renewed a service agreement in relation to certain information technology and related services. The agreement commenced on 12 December 2012 and continues until 12 December 2017.

Apart from the foregoing, no contract concerning the management and administration of the whole or any substantial part of the business of the Bank was entered into or existed during the year.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and eligible to offer themselves for re-appointment.

On behalf of the Board

Seah Lim Huat, Peter
Chairman

Hong Kong, 2 February 2016

DBS Bank (Hong Kong) Limited and its Subsidiaries

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DBS BANK (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries set out on pages 5 to 54, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 February 2016

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED INCOME STATEMENT

In HK$ millions	Note	Year ended 31 December 2015	2014
Interest income		**6,556**	6,828
Interest expense		**(1,856)**	(2,203)
Net interest income	4	**4,700**	4,625
Net fee and commission income	5	**1,923**	1,733
Net trading income	6	**1,546**	1,389
Net income from investment securities	7	**92**	180
Other income	8	**458**	118
Total income		**8,719**	8,045
Total expenses	9	**(4,503)**	(4,043)
Profit before allowances for credit losses		**4,216**	4,002
Allowances for credit losses	10	**(552)**	(350)
Profit before income tax		**3,664**	3,652
Income tax expense	12	**(534)**	(595)
Profit attributable to shareholders		**3,130**	3,057

The notes on pages 10 to 54 form part of these financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In HK$ millions	Year ended 31 December 2015	2014
Profit attributable to shareholders	**3,130**	3,057
Other comprehensive income		
Available-for-sale financial investments		
– Net valuation taken to equity	**1**	159
– Transferred to income statement	**(56)**	(151)
– Deferred income tax credited/ (charged) to equity	**9**	(1)
Other comprehensive income attributable to shareholders, net of tax	**(46)**	7
Total comprehensive income attributable to shareholders	**3,084**	3,064

Items recorded in "Other comprehensive income" above will be reclassified subsequently to the income statement when specific conditions are met, e.g. when available-for-sale financial investments are disposed.

The notes on pages 10 to 54 form part of these financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In HK$ millions	Note	As at 31 December 2015	2014
Assets			
Cash and balances with central banks	15	**6,305**	1,969
Government securities and treasury bills	16	**17,022**	22,913
Due from banks	17	**96,006**	79,478
Derivatives		**7,363**	5,094
Bank and corporate securities	18	**10,526**	11,891
Loans and advances to customers	19	**160,208**	184,569
Other assets	21	**7,712**	4,645
Properties and other fixed assets	24	**2,483**	2,684
Goodwill and intangibles	23	**187**	197
Total assets		**307,812**	313,440
Liabilities			
Due to banks		**9,689**	4,277
Deposits and balances from customers	25	**241,065**	252,259
Derivatives		**7,626**	5,216
Certificates of deposit issued	26	**4,479**	4,961
Other liabilities	27	**7,353**	9,707
Subordinated liability	29	**4,185**	4,189
Total liabilities		**274,397**	280,609
Equity			
Share capital	30	**7,595**	7,595
Reserves	30	**25,820**	25,236
Total equity		**33,415**	32,831
Total liabilities and equity		**307,812**	313,440

The notes on pages 10 to 54 form part of these financial statements.

Dominic Chiu Fai Ho
Director

Piyush Gupta
Director

J.E. Sebastian Paredes Muirragui
Director

Kwok Kwok Chuen
Director

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In HK$ millions	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2014	7,000	595	2,563	21,109	31,267
Transition to no-par value regime	595	(595)	–	–	–
Total comprehensive income	–	–	7	3,057	3,064
Dividend	–	–	–	(1,500)	(1,500)
Balance as at 31 December 2014	7,595	–	2,570	22,666	32,831
Balance as at 1 January 2015	**7,595**	**–**	**2,570**	**22,666**	**32,831**
Transferred to retained earnings on sale of investment properties	**–**	**–**	**(71)**	**71**	**–**
Total comprehensive income	**–**	**–**	**(46)**	**3,130**	**3,084**
Dividend	**–**	**–**	**–**	**(2,500)**	**(2,500)**
Balance as at 31 December 2015	**7,595**	**–**	**2,453**	**23,367**	**33,415**

The notes on pages 10 to 54 form part of these financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

In HK$ millions	Note	Year ended 31 December 2015	2014
Cash flows from operating activities			
Profit before income tax		**3,664**	3,652
Adjustments for non-cash items:			
Net gain on disposal of properties and other fixed assets		**(364)**	–
Fair value adjustment on investment properties		**4**	(9)
Allowances for credit losses		**552**	350
Write-off of properties and other fixed assets		**1**	2
Depreciation and amortisation		**231**	201
Fair value adjustment on interest in a joint venture		**–**	(17)
Advances written off net of recoveries		**(500)**	(547)
Revaluation for certificates of deposit issued		**(13)**	(5)
Amortisation of discount on certificates of deposit issued		**2**	9
Interest expense for certificates of deposit issued		**130**	157
Interest expense for subordinated liability		**119**	116
Share of profit of a joint venture		**–**	(20)
Profit before changes in operating assets and liabilities		**3,826**	3,889
Increase / (decrease) in:			
Due to banks		**5,412**	(474)
Deposits and balances from customers		**(11,194)**	9,738
Other liabilities and derivatives		**51**	(6,625)
(Increase) / decrease in:			
Due from banks		**(34,502)**	(5,216)
Government securities and treasury bills		**4,231**	(5,273)
Loans and advances to customers		**24,467**	18,953
Bank and corporate securities		**1,323**	829
Other assets and derivatives		**(5,485)**	3,509
Net cash (used in) / generated from operating activities before income tax		**(11,871)**	19,330
Hong Kong profits tax paid		**(529)**	(744)
Overseas tax paid		**(7)**	(7)
Net cash (used in) / generated from operating activities		**(12,407)**	18,579
Cash flows from investing activities			
Purchase of fixed assets		**(226)**	(244)
Proceeds from disposal of properties and other fixed assets		**565**	–
Net cash received from asset transfers		**–**	461
Net cash generated from investing activities		**339**	217
Cash flows from financing activities			
Dividend paid		**(2,500)**	(1,500)
Interest paid for certificates of deposits issued		**(131)**	(166)
Interest paid for subordinated liability		**(111)**	(116)
Issuance of certificates of deposit	32(a)	**623**	2,213
Redemption of certificates of deposit issued	32(a)	**(1,094)**	(4,820)
Net cash used in financing activities		**(3,213)**	(4,389)
Exchange differences and other adjustments		**(4)**	2
Net change in cash and cash equivalents		**(15,285)**	14,409
Cash and cash equivalents as at 1 January		**55,566**	41,157
Cash and cash equivalents as at 31 December	32(b)	**40,281**	55,566

The notes on pages 10 to 54 form part of these financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1 GENERAL INFORMATION

The principal activities of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together the "Group") are the provision of banking and related financial services. The Bank is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 11th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The ultimate holding company is DBS Group Holdings Ltd ("DBSH") which is listed, incorporated and domiciled in the Republic of Singapore. The address of its registered office is 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982.

The consolidated financial statements were approved for issue by the Board of Directors on 2 February 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the principal accounting policies applied by the Group and, except where noted, are consistent with those applied in the previous financial year.

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements are presented in Hong Kong dollars and rounded to the nearest million, unless otherwise stated.

The preparation of financial statements requires management to exercise judgement, use estimates and make assumptions that affect the application of policies and reported amounts in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity, are disclosed in Note 3.

(b) Adoption of new and revised accounting standards

On 1 January 2015, the Group adopted the following new or revised HKFRSs that are issued by HKICPA and relevant for the Group.

- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of these HKFRSs has no significant impact on the financial statements of the Group.

In addition to the above, a number of new standards and amendments to standards are effective or available for early adoption for annual periods beginning after 1 January 2015. The Group has not applied these standards or amended standards in preparing these financial statements. None of them is expected to have a significant effect on the financial statements of the Group and the Bank other than HKFRS 9.

HKFRS 9: Financial Instruments

HKFRS 9 replaces the existing guidance in HKAS 39 Financial Instruments: Recognition and Measurement. It includes revised guidance on the classification and measurement of financial instruments, introduces a new expected credit loss model for impairment of financial assets as well as new requirements for general hedge accounting. The standard is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted.

A summary of the most significant group accounting policies is described further below starting with those relating to the entire financial statements followed by those relating to the income statement, the statement of financial position and other specific topics. This does not reflect the relative importance of these policies to the Group.

General Accounting Policies

(c) Group accounting

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date control is transferred to the Group to the date control ceases.

The acquisition method is used to account for business combinations. Refer to Note 2(i) for the Group's accounting policy on goodwill.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investment cost at Bank level

Investments in subsidiaries are stated at cost less accumulated impairment losses in the Bank's statement of financial position. On disposal of investments in subsidiaries and joint venture, the difference between the net proceeds and the carrying amounts of the investments is taken to the income statement.

(d) Foreign currency treatment

(i) Functional and presentation currency

Items in the financial statements are measured using the functional currency of each entity in the Group, being the currency of the primary economic environment in which the entity operates. The Group's financial statements are presented in Hong Kong dollars, which is its functional currency of the Bank.

(ii) Foreign currency transactions and balances

Transactions in foreign currencies are measured using exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rate as at the end of the reporting period. Foreign exchange differences arising from this translation are recognised in the income statement as trading income.

Non-monetary assets and liabilities measured at cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined, which is generally the end of the reporting period.

Unrealised foreign exchange differences arising from non-monetary financial assets and liabilities classified as fair value through profit or loss are recognised in the income statement as trading income. For non-monetary financial assets such as equity investments classified as available-for-sale, unrealised foreign exchange differences are recorded in other comprehensive income and accumulated in equity until the assets are disposed of or become impaired, upon which they are reclassified to the income statement.

(iii) Subsidiaries and branches

The results and financial positions of subsidiaries and branches whose functional currency is not Hong Kong dollars ("foreign operations") are translated into Hong Kong dollars in the following manner:

- Assets and liabilities are translated at the exchange rates as at the end of the reporting period;
- Income and expenses in the income statement are translated at exchange rates prevailing at each month-end, approximating the exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognised in other comprehensive income and accumulated under capital reserves in equity. When a foreign operation is disposed of, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

Income Statement

(e) Income recognition

(i) Interest income and interest expense

Interest income and interest expense as presented in Note 4 respectively represent the income on all assets and liabilities regardless of the classification and measurement of the assets and liabilities on amortised cost or at fair value, with the exception of the Group's structured investment deposits which are carried at fair value through profit or loss. Interest expense on such structured investment deposits are presented together with other fair value changes in "Net trading income".

Interest income and interest expense are recognised on a time-proportionate basis using the effective interest method as prescribed by HKFRS. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of products and services provided to its customers.

Fee and commission income is generally recognised on the completion of a transaction. Such fees include underwriting fees, brokerage fees and fees related to completion of corporate finance transactions. For a service that is provided over a period of time, fee and commission income is recognised over the period during which the related service is provided or credit risk is undertaken. Such fees include the income from issuance of financial guarantee.

Fee and commission income is recorded net of incremental expenses that are directly related to generating it. These expenses typically include brokerage fees paid, card-related expenses and sales commissions, but do not include expenses for services delivered over a period (such as service contracts) and other expenses that are not specifically related to fee and commission income transactions.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established. This is generally the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities. Dividend income arising from held-for-trading financial assets is recognised in "Net trading income", and dividend arising from available-for-sale financial assets is recognised in "Net income from investment securities".

(iv) Rental income

Rental income from operating leases on properties is recognised on a straight-line basis over the lease term.

(v) Allowances for credit losses

Please refer to Note 2(h) for the accounting policy on impairment of financial assets including loan loss provisions.

Statement of financial position

(f) Financial assets

Initial recognition
Purchases and sales of all financial assets, even if their classification and measurement are subsequently changed, are recognised on the date that the Group enters into the contractual arrangements with counterparties. When the Group acts as trustee or in a fiduciary capacity for assets it does not directly control or benefit from, the assets and the corresponding income belonging to a customer are excluded from the financial statements.

Financial assets are initially recognised at fair value, which is generally the transaction price.

Classification and subsequent measurement
The Group classifies and measures financial assets based on their nature and the purpose for which they are acquired. This generally corresponds to the business models in which they are applied and how management monitors performance, as follows:

- Financial assets (other than derivatives) that are managed mainly for longer-term holding and collection of payments are classified as loans and receivables. These assets have fixed or determinable payments, are not quoted in an active market. Loans and receivables are carried at amortised cost and using the effective interest method.

- Financial assets that are managed on a fair value basis, are classified as financial assets at fair value through profit or loss. Such assets include instruments held for the purpose of short term selling and market making ("Held for trading"), or designated under the fair value option if doing so eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise, or if the financial asset contains an embedded derivative that would otherwise need to be separately recorded ("Designated at fair value through profit or loss").

  Realised or unrealised gains or losses on such financial assets, except interest income, are taken to "Net trading income" in the income statement in the period they arise.

  Derivatives (including derivatives embedded in other contracts but separated for accounting purposes) are also categorised as "held for trading" unless they are designated as hedging instruments in accordance with Note 2(o). Derivatives are classified as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

- The Group also holds other financial assets for the purpose of investment or satisfying regulatory liquidity requirements. Such assets are held for an indefinite period and may be sold in response to needs for liquidity or changes in interest rates, credit spreads, exchange rates or equity prices. These assets are classified as available-for-sale and initially and subsequently measured at fair value.

  Unrealised gains or losses arising from changes in fair value are recognised in other comprehensive income and accumulated in investments revaluation reserve. When sold or impaired, the accumulated fair value adjustments in the investments revaluation reserves are reclassified to the income statement. Unquoted equity investments classified as available-for-sale for which fair values cannot be reliably determined are carried at cost, less impairment (if any).

Where the classification and measurement of financial assets do not reflect the management of the financial assets (or financial liabilities), the Group may apply hedge accounting where permissible and relevant to better reflect the management of the financial assets. Please refer Note 2(o) for details on hedging and hedge accounting.

Please refer to Note 14 for further details on the types of financial assets classified and measured as above.

Reclassification of financial assets
When the purpose for holding a financial asset changes, or when HKFRS otherwise requires it, non-derivative financial assets are reclassified accordingly. Financial assets may be classified out of the fair value through profit or loss or available-for-sale categories only in particular circumstances as prescribed by HKAS 39.

Reclassifications are made at fair value as of the reclassification date. The fair value becomes the new cost or amortised cost as applicable. Any gain or loss already recognised in the income statement before the reclassification date is not reversed.

Determination of fair value
The fair value of financial assets is the price that would be received if the asset is sold in an orderly transaction between market participants at the measurement date. Fair value is generally estimated by discounting the future contractual cash

flows at the current market interest rate that is available to the Group for similar financial instruments. Where applicable, a valuation reserve or pricing adjustment is applied to arrive at the fair value. The determination of fair value is considered a significant accounting policy for the Group and further details are disclosed in Note 31 on fair value measurements.

Offsetting
Financial assets and liabilities are presented net when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when they have been transferred together with substantially all risks and rewards of ownership.

The Group enters into certain transactions where it transfers financial assets recognised on its statement of financial position but retains either all or a portion of the risks and rewards of the transferred financial assets. In such cases, the transferred financial assets are not derecognised from the statement of financial position. They also include certain transactions where control over the financial asset is retained, for example, by a simultaneous transaction (such as options) with the same counterparty to which the asset is transferred. In such cases, the Group continues to recognise the asset to the extent of its continuing involvement which is the extent to which it is exposed to changes in the value of the transferred asset.

Please refer to Note 36 for disclosures on transfers of financial assets.

(g) Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks, placements with and advances to banks and short-term bills and notes classified as held-for-trading and available-for-sale financial assets which are readily convertible into cash.

(h) Impairment of financial assets

Financial assets carried at amortised cost
The Group assesses at the end of each reporting period whether there is evidence that a financial asset or a group of financial assets is impaired. Impairment allowance is made when there is objective evidence of impairment as a result of the occurrence of loss events that will have an impact on the estimated future cash flows. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and / or financial conditions;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Granting of a concession to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the entity would not otherwise consider; and
- High probability of bankruptcy or other financial reorganisation of the borrower.

Individual impairment allowances are assessed using the discounted cash flow method. Individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Collective impairment allowances are assessed on the basis of contractual cash flows and historical loss experience adjusted for current conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the allowance is recognised in the income statement.

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment allowances are reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the allowances for loan impairment in the income statement.

Financial assets classified as available-for-sale
The Group assesses at the end of each reporting period whether there is evidence that an available-for-sale financial assets is impaired. In the case of an equity investment, a significant or prolonged decline in the fair value of security below its cost is a factor in determining whether the asset is impaired. When there is evidence of an impairment of an available-for-sale financial asset, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is reclassified from the investments revaluation reserve within equity to the income statement. For equity investments, impairment losses are not reversed until they are disposed of. For impaired debt instruments that subsequently recover in value, the impairment losses are reversed through the income statement if there has been an identifiable event that led to the recovery.

(i) Goodwill

Goodwill arising from business combinations generally represents the excess of the acquisition cost over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed on acquisition date. Goodwill is stated at cost less impairment losses and it is tested at least annually for impairment.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units (CGU) or group of CGUs expected to benefit from the combination's synergies.

An impairment loss is recognised when the carrying amount of a CGU, or a group of CGUs, including the goodwill, exceeds the applicable recoverable amount. The recoverable amount of a CGU or CGU group is the higher of the CGU's or CGU group's fair value less cost to sell and its value-in-use. An impairment loss on goodwill is recognised in the income statement and cannot be reversed in subsequent periods.

(j) Properties and other fixed assets

(i) Investment properties

Investment properties are carried at fair value, representing estimated open market value determined by independent qualified valuers. The changes in fair value are recognised in the income statement.

Investment properties include land held under finance leases and self-owned buildings.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of the property at the date of transfer is recognised in properties revaluation reserve under HKAS 16 Property, Plant and Equipment. On subsequent disposal of the investment property, the properties revaluation reserve is transferred to retained earnings.

(ii) Properties and other fixed assets

Properties and other fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Generally, the useful lives are as follows:

Freehold land	Not depreciated
Land	Over the remaining lease period
Buildings	Over the remaining lease period of the land on which it is situated or 50 years, whichever is shorter
Leasehold improvements	Over the lease term of the leased properties or 5 years, whichever is shorter
Furniture, fixtures and equipment	3 – 8 years

Subsequent expenditure relating to properties and other fixed assets that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefit associated with the item can be measured reliably. Other subsequent expenditure is recognised as hire and maintenance expense in the income statement during the financial year in which it is incurred.

Property and other fixed assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Upon disposal, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

Please refer to Note 24 for the details of properties and other fixed assets and their movements during the year.

(k) Financial liabilities

Initial recognition, classification and subsequent measurement
Financial liabilities are initially recognised at fair value. The Group generally classifies and measures its financial liabilities in accordance with the purpose for which the financial liabilities are incurred and managed. Accordingly:

- Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are incurred for the purpose of repurchasing in the near term (held-for-trading), and this may include debt securities issued and short positions in securities for the purpose of ongoing market-making, or trading. Financial liabilities at the fair value through profit or loss can also be designated by management on initial recognition (designated under the fair value option).

Realised or unrealised gains or losses on financial liabilities held for trading and financial liabilities designated under the fair value option, except interest expense, are taken to "Net trading income" in the income statement in the period they arise. Interest expense on structured investment deposits at fair value through profit or loss are also presented together with other fair value changes in "Net trading income".

- Derivative liabilities are treated consistently with derivative assets. Please refer to Note 2(f) for the accounting policy on derivatives.

- Other financial liabilities are carried at amortised cost using the effective interest method. These comprise predominantly the Group's deposit portfolio under "Deposits and balances from customers" and "Due to banks" and those under "Other liabilities".

Please refer to Note 14 for further details on the types of financial liabilities classified and measured as above.

Determination of fair value
The fair value of financial liabilities is the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Please refer also to Note 31 for further fair value measurement disclosures.

Derecognition
A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

(l) Loan commitments, letters of credit and financial guarantees

Loan Commitments
Loan commitments are typically not financial instruments and are not recognised on statement of financial position but are disclosed as off-balance sheet in accordance with HKAS 37. They form part of the disclosures in Note 34. Upon a loan draw-down, the amount of the loan is accounted for under "loans and receivables" as described in Note 2(f).

Letters of Credit
Letters of credit are recorded off-balance sheet as contingent liabilities upon issuance, and the corresponding payables to the beneficiaries and receivables from the applicants are recognised on-balance sheet upon acceptance of the underlying documents.

Financial Guarantees
A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee is given. This is generally the amount (fee) paid by the counterparty. Subsequently, the fee is recognised over time as income in accordance with the principles in Note 2(e).

Off-balance sheet credit exposures are managed for credit risk in the same manner as financial assets.

(m) Provisions
Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(n) Share capital
Ordinary shares are classified as equity. Incremental external costs directly attributable to the issuance of new ordinary shares are accounted for as a deduction from the share capital account.

Interim dividends are recorded during the financial year in which they are declared payable. Final dividends are recorded during the financial year in which the dividends are approved by the shareholders at the Annual General Meeting.

Other Specific Topics

(o) Hedging and hedge accounting
The Group uses derivative contracts mainly as part of its risk management strategies for hedging interest rate risk arising from maturity mismatches or for hedging currency risk arising from currency mismatches and cash flows in foreign currencies.

In some cases, where the strict criteria in HKAS 39 are met, hedge accounting is applied as set out in subsequent paragraphs. At the inception of each hedging relationship, the Group documents the relationship between the hedging instrument and hedged item; the risk management objective for undertaking the hedge transactions; and the methods used to assess the effectiveness of the hedge. At inception and on an on-going basis, the Group also documents its assessment of whether the hedging instrument is highly effective in offsetting changes in the fair value or cash flows of the hedged item.

Fair value hedge
The Group's fair value hedges consist principally of interest rate swaps used for managing the interest rate gaps that naturally arise from its purchases or issues of debt securities, and where a mismatch in the measurement between the hedging derivative and the hedged item exists.

For a qualifying fair value hedge, the changes in the fair value of the hedging derivative are recorded in the income statement, together with any changes in the fair value of the hedged item attributable to the hedged risk. Gain or loss arising from hedge ineffectiveness is recognised in the income statement under "Net trading income".

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over its remaining maturity, using the effective interest method.

Economic hedges which do not qualify for hedge accounting

Some derivatives may be transacted as economic hedges as part of the Group's risk management but do not qualify for hedge accounting under HKAS 39. This includes swaps and other derivatives (e.g. futures and options) that the Group transacts to manage interest rate, foreign exchange and other risks. Such derivatives are treated in the same way as derivative held for trading purposes, i.e. realised and unrealised gains and losses are recognised in "Net trading income". In some cases, the hedged exposures are designated at fair value through profit or loss, thereby achieving some measure of offset in the income statement.

Please refer to Note 33 for disclosures on hedging derivatives.

(p) Employee benefits

Employee benefits, which include base pay, cash bonuses, share-based compensation, contribution to defined contribution plans and other staff related allowances, are recognised in the income statement when incurred. For defined contribution plans, contributions are made to publicly or privately administered funds on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations.

Employee entitlement to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual unutilised leave as a result of services rendered by employees up to the end of the reporting period.

(q) Share-based compensation

Employee benefits also include share-based compensation, namely, the DBSH Share Option Plan, the DBSH Share Plan and the DBSH Employee Share Plan run by DBSH, the ultimate holding company of the Bank. The details of the Plans are described in Note 41.

These share-based compensation expenses, which are measured at their fair values at grant date, are cash-settled with DBSH, amortised and recognised in the income statement over the relevant vesting periods. Non-market vesting conditions are taken into account in determining the number of shares to be granted or number of options that are expected to become exercisable on vesting dates. The impact of subsequent revision of original estimates, if any, is recognised in the income statement.

(r) Current and deferred taxes

Current income tax for current and prior periods is recognised as the amount expected to be paid or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The Group considers uncertain tax positions generally at the level of the total tax liability to each tax authority for each period. The liability is determined based on the total amount of current tax expected to be paid, taking into account all tax uncertainties, using either an expected value approach or a single best estimate of the most likely outcome.

Tax assets and liabilities of the same type (current or deferred) are offset when a legal right of offset exists and settlement in this manner is intended. This applies generally when they arise from the same tax reporting group and relate to the same tax authority.

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the end of the reporting period.

The amount of deferred tax assets recognised takes into account the likelihood the amount that can be used to offset payables taxes for future profits.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are recognised outside the income statement, is also recognised outside the income statement i.e. in other comprehensive income and accumulated in the investments revaluation reserve.

(s) Leases

(i) Finance leases

Leases where substantially all the risks and rewards of ownership are transferred to the Group are accounted for as finance leases. Finance leases are capitalised at the commencement of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments. The Group's interests in leasehold land are accounted for as finance leases.

Where the Group is a lessor under finance leases and hire purchase transactions, the amounts due under the leases, net of unearned finance income, are recognised as receivables and included in "Loans and advances to customers". Finance income implicit in rentals receivable is credited to the income statement over the lease period so as to produce an approximately constant periodic rate of return on the net investments outstanding for each financial period.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognised as an expense in the period the termination takes place.

Where the Group is a lessor under operating leases, rentals receivable under operating leases is credited to the income statement on a straight-line basis over the lease term.

3 CRITICAL ACCOUNTING ESTIMATES

The Group's accounting policies and use of estimates are integral to the reported results. Certain accounting estimates require management's judgement in determining the appropriate methodology for valuation of assets and liabilities. Procedures are in place to ensure that methodologies are reviewed and revised as appropriate. The Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Group's critical accounting estimates that involve management's valuation judgement.

(a) Impairment allowances

The Group establishes, through charges against profit, impairment allowances in respect of estimated loss in loans and advances to customers and other assets. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances should represent the aggregate amount by which management considers it necessary to write down its loan portfolio and other assets in order to state them in the statement of financial position at their estimated ultimate net realisable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When an advance to customer is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The quantum of the allowance is also impacted by the collateral value and this in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation. In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments

The majority of the Group's financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced market parameters.

The fair value of financial instruments without an observable market price in a liquid market may be determined using valuation models. The choice of model requires significant judgement for complex products.

Policies and procedures have been established to facilitate the exercise of judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors used in the valuation process.

Please refer to Note 31 for details on valuation process and the fair value hierarchy of the Group's financial instruments measured at fair value.

(c) Goodwill

The Group performs an impairment review to ensure that the carrying amount of the CGU to which goodwill is allocated, does not exceed the recoverable amount of the CGU. Note 23 provides details of goodwill as of the reporting date.

The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercises judgement in estimating the future cash flows, growth rate and discount rate.

(d) Income taxes

Judgement is involved in determining the group-wide provision for income taxes. The Group recognises liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Note 28 provides details of the Group's deferred tax assets / liabilities.

4 NET INTEREST INCOME

In HK$ millions	2015	2014
Interest income on listed investments	**263**	295
Interest income on unlisted investments	**142**	182
Other interest income	**6,151**	6,351
Total interest income (a)	**6,556**	6,828
Interest expense on subordinated liability (Note 29)	**(119)**	(116)
Other interest expense	**(1,737)**	(2,087)
Total interest expense (b)	**(1,856)**	(2,203)
Net interest income	**4,700**	4,625

(a) Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK$6,466 million (2014: HK$6,729 million).

(b) Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK$1,850 million (2014: HK$2,189 million).

5 NET FEE AND COMMISSION INCOME

In HK$ millions	2015	2014
Fee and commission income	**2,348**	2,047
Less: Fee and commission expense	**(425)**	(314)
Net fee and commission income	**1,923**	1,733
Comprising:		
– Wealth management	**680**	580
– Trade and transaction services (a)	**483**	494
– Loan related	**255**	274
– Cards	**337**	284
– Stock broking	**55**	39
– Others	**113**	62
Total net fee and commission income	**1,923**	1,733

(a) Included trade & remittances, guarantees, deposit-related fees and investment banking.

Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	**945**	822
– Trust or other fiduciary activities	**20**	17
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	**326**	236

6 NET TRADING INCOME

In HK$ millions	2015	2014
Net trading income		
– Foreign exchange	**1,390**	1,368
– Interest rates, equities and others	**237**	58
	1,627	1,426
Net loss from financial instruments designated at fair value through profit or loss	**(81)**	(37)
	1,546	1,389

7 NET INCOME FROM INVESTMENT SECURITIES

In HK$ millions	2015	2014
Debt securities		
– Available-for-sale	**67**	127
– Loans and receivables	**–**	2
Equity securities	**25**	51
	92	180
Of which dividend income from:		
– Listed investments	**–**	5
– Unlisted investments	**25**	18
	25	23

8 OTHER INCOME

In HK$ millions	2015	2014
Rental income	**35**	36
Fair value adjustment on investment properties (Note 24(a))	**(4)**	9
Net gain on disposal of properties and other fixed assets	**364**	–
Share of profit of a joint venture	**–**	20
Others	**63**	53
	458	118

9 TOTAL EXPENSES

In HK$ millions	2015	2014
Employee benefits		
– Salaries and other short term employee benefits	**2,468**	2,209
– Pensions	**143**	127
– Share-based compensation	**55**	46
Premises and equipment expenses excluding depreciation		
– Rental of premises	**265**	224
– Others	**302**	253
Depreciation (Note 24(a))	**221**	196
Auditor's remuneration	**10**	10
Computerisation expenses	**366**	375
Other operating expenses	**673**	603
	4,503	4,043

10 ALLOWANCES FOR CREDIT LOSSES

In HK$ millions	2015	2014
Individual impairment allowances on loans and advances to customers (Note 20)	**139**	134
Collective impairment allowances on loans and advances to customers (Note 20)	**255**	216
Individual impairment allowances on other assets (a)	**158**	–
	552	350
Individual impairment allowances on loans and advances to customers		
– New allowances	**375**	244
– Release	**(210)**	(104)
– Recoveries	**(26)**	(6)
	139	134
Collective impairment allowances on loans and advances to customers		
– New allowances	**394**	343
– Release	**(85)**	(96)
– Recoveries	**(54)**	(31)
	255	216

(a) Represented new allowances of the year.

11 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The aggregate amounts of emoluments paid or payable to directors of the Bank during the year are as follows:

In HK$ millions	2015	2014
Fees (a)	**3**	3
Salaries, housing and other allowances and benefits (b)	**22**	21
Contributions paid under a retirement benefit scheme	**1**	1
	26	25

(a) The Directors' fees are payable in 2016 to eligible persons who acted as Directors of DBS Bank (Hong Kong) Limited during the year ended 31 December 2015. Such fees are subject to the approval of the shareholders of DBS Bank (Hong Kong) Limited.

(b) The amount included cash bonus accrued during the year, to be paid in the following year. Such cash bonus is subject to the approval of DBSH's Board of Directors. The amount also included the estimated money value of other perquisites.

During the year, no termination benefits were paid by the Bank to any of the Bank's directors.

During the year, the Bank did not incur any payment to third parties for making available directors' services.

(b) Directors' material interests in transactions, arrangements and contracts

During the year, the Bank has granted a banking facility ("Facility") of HK$1,300 million to Great Maker Limited, in which Sino Land Company Limited ("Sino Land") has 30% indirect shareholding interest, in the ordinary course of business and on normal commercial terms. Sino Land granted in favour of the Bank a 30% pro-rated and several corporate guarantee for the Facility. Mr. Ng Chee Siong, Robert is interested in the Facility as he is the chairman and a substantial shareholder of Sino Land.

No other transaction, arrangement and contracts of significance in relation to the Bank's business, to which the Bank or any of its subsidiaries or its holding companies or any subsidiary of its holding companies was a party and in which a director of the Bank or the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

12 INCOME TAX EXPENSE

(a) Income tax expense in the consolidated income statement is comprised of:

In HK$ millions	2015	2014
Hong Kong profits tax		
– Current year	**543**	591
– Overprovision in prior years	**(37)**	(14)
Overseas tax		
– Current year	**10**	16
Current income tax	**516**	593
Deferred income tax (Note 28(b))	**18**	2
	534	595

Hong Kong profits tax has been provided at 16.5% (2014: 16.5%) on the estimated assessable profits for the year. Taxation for overseas subsidiaries and branch are charged at the appropriate current rates of taxation ruling in the countries in which they operate.

(b) The deferred income tax charged / (credited) to the consolidated income statement comprises the following temporary differences:

In HK$ millions	2015	2014
Accelerated depreciation allowances	**16**	14
Impairment allowances	**3**	(8)
Share-based compensation	**(2)**	(5)
Accrued expenses	**1**	1
	18	2

(c) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 16.5% (2014: 16.5%) is as follows:

In HK$ millions	2015	2014
Profit before income tax	**3,664**	3,652
Tax calculated at tax rate of 16.5% (2014: 16.5%)	**605**	603
Effect of different tax rates in other countries	**(2)**	(3)
Income not subject to tax	**(66)**	(10)
Expenses not deductible for tax purposes	**33**	17
Overprovision in prior years	**(37)**	(14)
Others	**1**	2
Income tax expense	**534**	595

13 DIVIDEND

In HK$ millions	2015	2014
First interim dividend paid of HK$0.143 per share (2014: HK$0.143 per share)	**1,000**	1,000
Second interim dividend paid of HK$0.214 per share (2014: HK$0.071 per share)	**1,500**	500
	2,500	1,500

14 CLASSIFICATION OF FINANCIAL INSTRUMENTS

In HK$ millions	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables/ amortised cost	Hedging derivatives	Total
2015						
Assets						
Cash and balances with central banks	**–**	**–**	**–**	**6,305**	**–**	**6,305**
Government securities and treasury bills	**2,458**	**–**	**14,564**	**–**	**–**	**17,022**
Due from banks	**–**	**–**	**–**	**96,006**	**–**	**96,006**
Derivatives	**7,181**	**–**	**–**	**–**	**182**	**7,363**
Bank and corporate securities	**1,334**	**–**	**6,423**	**2,769**	**–**	**10,526**
Loans and advances to customers	**–**	**–**	**–**	**160,208**	**–**	**160,208**
Other financial assets	**–**	**–**	**–**	**7,658**	**–**	**7,658**
Total financial assets	**10,973**	**–**	**20,987**	**272,946**	**182**	**305,088**
Non-financial assets						**2,724** (a)
Total assets						**307,812**
Liabilities						
Due to banks	**–**	**–**	**–**	**9,689**	**–**	**9,689**
Deposits and balances from customers	**–**	**1,412**	**–**	**239,653**	**–**	**241,065**
Derivatives	**7,575**	**–**	**–**	**–**	**51**	**7,626**
Certificates of deposit issued	**–**	**–**	**–**	**4,479**	**–**	**4,479**
Other financial liabilities	**1,780**	**–**	**–**	**5,565**	**–**	**7,345**
Subordinated liability	**–**	**–**	**–**	**4,185**	**–**	**4,185**
Total financial liabilities	**9,355**	**1,412**	**–**	**263,571**	**51**	**274,389**
Non-financial liabilities						**8** (b)
Total liabilities						**274,397**

(a) Includes goodwill and intangibles, properties and other assets, current tax assets and deferred tax assets

(b) Includes current tax liabilities

In HK$ millions	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables/ amortised cost	Hedging derivatives	Total
2014						
Assets						
Cash and balances with central banks	–	–	–	1,969	–	1,969
Government securities and treasury bills	4,196	–	18,717	–	–	22,913
Due from banks	–	–	–	79,478	–	79,478
Derivatives	4,906	–	–	–	188	5,094
Bank and corporate securities	2,338	–	7,673	1,880	–	11,891
Loans and advances to customers	–	–	–	184,569	–	184,569
Other financial assets	–	–	–	4,600	–	4,600
Total financial assets	11,440	–	26,390	272,496	188	310,514
Non-financial assets						2,926 (a)
Total assets						313,440
Liabilities						
Due to banks	–	–	–	4,277	–	4,277
Deposits and balances from customers	–	4,079	–	248,180	–	252,259
Derivatives	5,136	–	–	–	80	5,216
Certificates of deposit issued	–	–	–	4,961	–	4,961
Other financial liabilities	3,738	–	–	5,955	–	9,693
Subordinated liability	–	–	–	4,189	–	4,189
Total financial liabilities	8,874	4,079	–	267,562	80	280,595
Non-financial liabilities						14 (b)
Total liabilities						280,609

(a) Includes goodwill and intangibles, properties and other assets, current tax assets and deferred tax assets

(b) Includes current tax liabilities

15 CASH AND BALANCES WITH CENTRAL BANKS

In HK$ millions	2015	2014
Cash in hand	**598**	483
Balances with central banks	**5,707**	1,486
	6,305	1,969

16 GOVERNMENT SECURITIES AND TREASURY BILLS

In HK$ millions	Held for trading	Available-for-sale	Total
2015			
Treasury bills	**1,638**	**8,563**	**10,201**
Other debt securities	**820**	**6,001**	**6,821**
	2,458	**14,564**	**17,022**
Of which:			
– listed in Hong Kong, at fair value	**816**	**745**	**1,561**
– listed outside Hong Kong, at fair value	**3**	**694**	**697**
– unlisted, at fair value	**1,639**	**13,125**	**14,764**
	2,458	**14,564**	**17,022**
Analysed by issuer as follows:			
– Sovereigns	**2,458**	**14,564**	**17,022**
Analysed by rating agency designation as follows:			
– AAA	**–**	**659**	**659**
– AA- to AA+	**2,458**	**13,905**	**16,363**
	2,458	**14,564**	**17,022**

In HK$ millions	Held for trading	Available-for-sale	Total
2014			
Treasury bills	2,591	11,621	14,212
Other debt securities	1,605	7,096	8,701
	4,196	18,717	22,913
Of which:			
– listed in Hong Kong, at fair value	1,253	137	1,390
– listed outside Hong Kong, at fair value	3	1,917	1,920
– unlisted, at fair value	2,940	16,663	19,603
	4,196	18,717	22,913
Analysed by issuer as follows:			
– Sovereigns	4,196	18,717	22,913
Analysed by rating agency designation as follows:			
– AAA	–	3,150	3,150
– AA- to AA+	4,196	15,567	19,763
	4,196	18,717	22,913

The ratings refer to Standard & Poor's ratings (or their equivalent) to the respective issues of the securities, while in the absence of such issue ratings, ratings designated for the issuers or country rating of the issuers are reported.

As at 31 December 2015 and 2014, there were no impaired, overdue, or rescheduled available-for-sale financial assets.

17 DUE FROM BANKS

In HK$ millions	2015	2014
Balances with banks	**3,136**	4,234
Placements with and advances to banks		
Remaining maturity		
– Within one month	**36,969**	27,696
– One year or less but over one month	**45,610**	46,300
– Over one year	**10,291**	1,248
	92,870	75,244
Total	**96,006**	79,478

18 BANK AND CORPORATE SECURITIES

In HK$ millions	Held for trading	Available-for-sale	Loans and receivables	Total
2015				
Certificate of deposit held	**6**	**–**	**–**	**6**
Other debt securities	**1,328**	**6,393**	**2,769**	**10,490**
Debt securities	**1,334**	**6,393**	**2,769**	**10,496**
Equity securities	**–**	**30**	**–**	**30**
	1,334	**6,423**	**2,769**	**10,526**
Of which:				
Debt securities				
– Listed in Hong Kong, at fair value	**403**	**975**	**–**	**1,378**
– Listed outside Hong Kong, at fair value	**698**	**2,788**	**–**	**3,486**
– Listed outside Hong Kong, at cost	**–**	**–**	**1,636**	**1,636**
– Unlisted, at fair value	**233**	**2,630**	**–**	**2,863**
– Unlisted, at cost	**–**	**–**	**1,133**	**1,133**
	1,334	**6,393**	**2,769**	**10,496**
Equity securities				
– Unlisted, at cost	**–**	**30**	**–**	**30**
	–	**30**	**–**	**30**
	1,334	**6,423**	**2,769**	**10,526**
Analysed by issuer as follows:				
– Public sector entities	**–**	**397**	**1,636**	**2,033**
– Banks	**975**	**3,846**	**1,133**	**5,954**
– Corporates	**359**	**2,169**	**–**	**2,528**
– Others	**–**	**11**	**–**	**11**
	1,334	**6,423**	**2,769**	**10,526**
Analysed by rating agency designation as follows:				
– AAA	**–**	**3,578**	**1,636**	**5,214**
– AA- to AA+	**526**	**665**	**1,133**	**2,324**
– A- to A+	**605**	**2,027**	**–**	**2,632**
– BBB to BBB+	**112**	**112**	**–**	**224**
– Unrated	**91**	**11**	**–**	**102**
	1,334	**6,393**	**2,769**	**10,496**

In HK$ millions	Held for trading	Available-for-sale	Loans and receivables	Total
2014				
Certificate of deposit held	688	–	–	688
Other debt securities	1,650	7,643	1,880	11,173
Debt securities	2,338	7,643	1,880	11,861
Equity securities	–	30	–	30
	2,338	7,673	1,880	11,891
Of which:				
Debt securities				
– Listed in Hong Kong, at fair value	724	1,086	–	1,810
– Listed outside Hong Kong, at fair value	609	3,539	–	4,148
– Listed outside Hong Kong, at cost	–	–	1,880	1,880
– Unlisted, at fair value	1,005	3,018	–	4,023
	2,338	7,643	1,880	11,861
Equity securities				
– Unlisted, at cost	–	30	–	30
	–	30	–	30
	2,338	7,673	1,880	11,891
Analysed by issuer as follows:				
– Public sector entities	–	429	1,762	2,191
– Banks	1,649	4,883	–	6,532
– Corporates	689	2,345	118	3,152
– Others	–	16	–	16
	2,338	7,673	1,880	11,891
Analysed by rating agency designation as follows:				
– AAA	–	4,581	–	4,581
– AA- to AA+	443	544	–	987
– A- to A+	1,353	2,082	–	3,435
– BBB to BBB+	205	233	118	556
– Unrated	337	203	1,762	2,302
	2,338	7,643	1,880	11,861

The ratings refer to Standard & Poor's ratings (or their equivalent) to the respective issues of the securities, while in the absence of such issue ratings, ratings designated for the issuers are reported.

As at 31 December 2015, the fair value of the above debt securities classified as loans and receivables is HK$2,774 million (2014: HK$1,887 million).

As at 31 December 2015 and 2014, there were no impaired, overdue or rescheduled available-for-sale and loans and receivables financial assets.

19 LOANS AND ADVANCES TO CUSTOMERS

In HK$ millions	2015	2014
Gross loans and advances to customers	**161,558**	185,968
Less: Impairment allowances		
– Individually assessed (Note 20)	**(524)**	(569)
– Collectively assessed (Note 20)	**(826)**	(830)
	160,208	184,569
Comprising:		
– Trade bills	**15,584**	27,078
– Loans	**144,624**	157,491
	160,208	184,569

Loans and advances to customers include finance leases and hire purchase contracts receivables and are analysed as follows:

In HK$ millions	2015	2014
Gross investments in finance leases and hire purchase contracts receivables:		
– Not later than one year	**767**	927
– Later than one year and not later than five years	**1,990**	2,140
– Later than five years	**7,071**	6,797
	9,828	9,864
Unearned future finance income	**(11)**	(16)
Net investments in finance leases and hire purchase contracts receivables	**9,817**	9,848
The net investments in finance leases and hire purchase contracts receivables are analysed as follows:		
– Not later than one year	**761**	919
– Later than one year and not later than five years	**1,986**	2,132
– Later than five years	**7,070**	6,797
	9,817	9,848

The unguaranteed residual values included in the gross investments in finance leases and hire purchase contracts receivables as at 31 December 2015 and 2014 are not material.

The individual impairment allowances for finance leases and hire purchase contracts receivables amounted to HK$8 million as at 31 December 2015 (2014: HK$75 million).

20 IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS

In HK$ millions	Individually assessed	Collectively assessed	Total
As at 1 January 2015	**569**	**830**	**1,399**
Amounts written off	**(211)**	**(369)**	**(580)**
Recoveries of loans and advances written off in previous years	**26**	**54**	**80**
Net charge to consolidated income statement (Note 10)	**139**	**255**	**394**
Others	**1**	**56**	**57**
As at 31 December 2015	**524**	**826**	**1,350**
As at 1 January 2014	793	713	1,506
Amounts written off	(353)	(231)	(584)
Recoveries of loans and advances written off in previous years	6	31	37
Net charge to consolidated income statement (Note 10)	134	216	350
Others	(11)	51	40
Additions through acquisition	–	50	50
As at 31 December 2014	569	830	1,399

21 OTHER ASSETS

In HK$ millions	2015	2014
Accrued interest receivables	**538**	543
Acceptances	**1,618**	1,871
Current income tax assets (Note 28(a))	**22**	4
Deferred tax assets (Note 28(b))	**32**	41
Cash collateral placed	**3,682**	8
Others (a) / (b)	**1,820**	2,178
	7,712	4,645

(a) Included individual impairment allowances of HK$158 million (2014: Nil).

(b) Except for balance of HK$18 million overdue more than 3 months but not more than 6 months, there were no other assets overdue for more than 6 months.

22 SUBSIDIARIES

The main operating subsidiaries of the Group, which are wholly and directly owned by the Bank, are listed below:

Name of company	Place of incorporation	Place of operation	Particulars of issued share capital	Principal activities
Ting Hong Nominees Limited	Hong Kong	Hong Kong	10,000 shares	Provision of nominee, trustee and agency services
Overseas Trust Bank Nominees Limited	Hong Kong	Hong Kong	50,000 shares	Provision of nominee services

23 GOODWILL AND INTANGIBLES

As at 31 December 2015, the carrying value of the Group's goodwill arising from acquisition of subsidiaries is allocated to the Group's cash-generating units (CGUs) or groups of CGUs as follows:

In HK$ millions	2015	2014
Goodwill	**168**	168
Intangibles (a)	**19**	29
Total goodwill and intangibles	**187**	197

(a) Customer and merchant relationships, arising from the acquisition of interest in DBS COMPASS Limited, with an estimated useful life of 3.5 years. At 31 December 2015, these have a remaining estimated useful life of 2 years. Movement during the year represented the amortisation charge.

The carrying values of the CGUs are reviewed at least once a year to determine if the goodwill associated with them should be impaired. If a CGU's carrying value exceeds its recoverable value, a goodwill impairment charge is recognised in the income statement.

The recoverable value is determined based on a value-in-use calculation. The CGU's five-year projected cash flows, taking into account projected regulatory capital requirements, are discounted by its cost of capital to derive their present value. To derive the value beyond the fifth year, a long-term growth rate is imputed to the fifth-year cash flow and then discounted by the cost of capital to derive the terminal value. The long-term growth rate used does not exceed the historical long-term growth rate of the market the CGU operates in. The recoverable value is the sum of the present value of the five-year cash flows and the terminal value.

A growth rate of 4.5% and discount rate of 9.0% were assumed in the value-in-use calculation.

The process of evaluating goodwill impairment involves management judgement and prudent estimates of various factors including future cash flows as well as the cost of capital and long-term growth rates. The results can be highly sensitive to the assumptions used. Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the operating unit to exceed its recoverable amount at 31 December 2015. However, if conditions in Hong Kong and the banking industry deteriorate and turn out to be significantly worse than anticipated in the Group's performance forecast, the goodwill may be impaired in future periods.

24 PROPERTIES AND OTHER FIXED ASSETS

(a) Properties and other fixed assets movements

In HK$ millions	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
Cost or valuation						
As at 1 January 2015	**23**	**2,570**	**1,286**	**3,879**	**519**	**4,398**
Additions	**–**	**6**	**218**	**224**	**2**	**226**
Disposals	**–**	**(56)**	**(43)**	**(99)**	**(170)**	**(269)**
Transfers in / (out)	**–**	**20**	**–**	**20**	**(20)**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**(4)**	**(4)**
As at 31 December 2015	**23**	**2,540**	**1,461**	**4,024**	**327**	**4,351**
Accumulated depreciation and impairment						
As at 1 January 2015	**17**	**870**	**827**	**1,714**	**–**	**1,714**
Charge for the year	**–**	**57**	**164**	**221**	**–**	**221**
Disposals	**–**	**(25)**	**(42)**	**(67)**	**–**	**(67)**
As at 31 December 2015	**17**	**902**	**949**	**1,868**	**–**	**1,868**
Net book value						
As at 31 December 2015	**6**	**1,638**	**512**	**2,156**	**327**	**2,483**
The analysis of cost or valuation of the above assets as at 31 December 2015 is as follows:						
At cost	**23**	**2,540**	**1,461**	**4,024**	**–**	**4,024**
At valuation	**–**	**–**	**–**	**–**	**327**	**327**
	23	**2,540**	**1,461**	**4,024**	**327**	**4,351**

In HK$ millions	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
Cost or valuation						
As at 1 January 2014	23	2,571	1,258	3,852	510	4,362
Additions	–	9	235	244	–	244
Disposals	–	(10)	(282)	(292)	–	(292)
Additions through acquisition	–	–	75	75	–	75
Fair value adjustment	–	–	–	–	9	9
As at 31 December 2014	23	2,570	1,286	3,879	519	4,398
Accumulated depreciation and impairment						
As at 1 January 2014	17	823	896	1,736	–	1,736
Charge for the year	–	56	140	196	–	196
Disposals	–	(9)	(281)	(290)	–	(290)
Additions through acquisition	–	–	72	72	–	72
As at 31 December 2014	17	870	827	1,714	–	1,714
Net book value						
As at 31 December 2014	6	1,700	459	2,165	519	2,684
The analysis of cost or valuation of the above assets as at 31 December 2014 is as follows:						
At cost	23	2,570	1,286	3,879	–	3,879
At valuation	–	–	–	–	519	519
	23	2,570	1,286	3,879	519	4,398

The net book values of land and buildings and investment properties held by the Group are as follows:

In HK$ millions	2015 Land and buildings	2015 Investment properties	2014 Land and buildings	2014 Investment properties
Freeholds				
Held outside Hong Kong	**6**	**–**	6	–
Leaseholds				
Held in Hong Kong				
– Leases of over 50 years	**151**	**327**	188	442
– Leases of between 10 to 50 years	**1,485**	**–**	1,510	77
Held outside Hong Kong				
– Leases of between 10 to 50 years	**2**	**–**	2	–
	1,638	**327**	1,700	519

(b) Fair value of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined by in HKFRS 13. The level into which a fair value measurement is classified, is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

In HK$ millions	Level 1	Level 2	Level 3	Total
2015				
Investment properties	**–**	**–**	**327**	**327**
2014				
Investment properties	–	–	519	519

During the year, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. For the year of 2014, the Group transferred investment properties of HK$102 million from Level 2 to Level 3 as a result of reduced market activity. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates (Surveyors). The fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). It is an estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion.

(ii) Information about Level 3 fair value measurements

The fair value of investment properties is determined using the investment method by capitalising the net rental incomes derived from the existing tenancies with due allowance for reversionary income potential of the property interests. The significant unobservable input used for valuation is the market yield.

The movement during the year in the balance of these Level 3 fair value measurements is as follows:

In HK$ millions	2015	2014
At 1 January	**519**	410
Fair value adjustment	**(4)**	7
Additions	**2**	–
Disposals	**(170)**	–
Transfers in	**–**	102
Transfers out	**(20)**	–
At 31 December	**327**	519

Fair value adjustment of investment properties is recognised in the line item "Other income" on the consolidated income statement. All the fair value adjustment recognised in the income statement for the year arise from the properties held at the end of the reporting period.

25 DEPOSITS AND BALANCES FROM CUSTOMERS

In HK$ millions	2015	2014
Deposits from customers, at amortised cost	**239,653**	248,180
Structured investment deposits classified as financial liabilities designated at fair value through profit or loss (a)	**1,412**	4,079
	241,065	252,259

Analysed by:		
– Demand deposits and current accounts	**37,284**	27,151
– Savings deposits	**96,235**	86,942
– Time, call and notice deposits	**107,546**	138,166
	241,065	252,259

(a) *Changes in fair value arising from changes in credit risk are determined as the amount of change in their fair value that is not attributable to changes in market conditions that give rise to market risk. Changes in market conditions that give rise to market risk include changes in benchmark interest rate, foreign exchange rate or index of prices or rates. Changes in fair value arising from changes in credit risk are considered not significant. The carrying amount of the financial liabilities designated at fair value through profit or loss was HK$8 million lower than the contractual amount at maturity as at 31 December 2015 (2014: HK$60 million lower).*

26 CERTIFICATES OF DEPOSIT ISSUED

In HK$ millions	2015	2014
Certificates of deposit issued, measured at amortised cost	**4,479**	4,961

27 OTHER LIABILITIES

In HK$ millions	2015	2014
Accrued interest payable	**279**	394
Acceptances	**1,618**	1,871
Current income tax liabilities (Note 28(a))	**8**	14
Payable in respect of short sale of securities	**1,780**	3,738
Other liabilities and provisions	**3,668**	3,690
	7,353	9,707

28 TAXATION

(a) Current income tax asset and liabilities

In HK$ millions	2015	2014
Current income tax assets		
Hong Kong profits tax recoverable	**22**	4
Current income tax liabilities		
Hong Kong profits tax payable	**–**	5
Overseas tax payable	**8**	9
	8	14

(b) Deferred income tax

The movements on the net deferred tax assets are as follows:

In HK$ millions	2015	2014
As at 1 January	**41**	39
Additions through acquisition	**–**	5
Deferred income tax charged to income statement (Note 12(a))	**(18)**	(2)
Deferred income tax credited / (charged) to equity (Note 30(b)(ii))	**9**	(1)
As at 31 December	**32**	41

Deferred tax assets and liabilities are attributable to the following items:

In HK$ millions	2015	2014
Deferred tax assets		
Impairment allowances	**103**	106
Share-based compensation	**15**	13
Accrued expenses	**6**	7
	124	126
Deferred tax liabilities		
Accelerated depreciation allowances	**89**	73
Revaluation of investment securities	**3**	12
	92	85

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The deferred tax assets and liabilities are to be recovered and settled after one year and the following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

In HK$ millions	2015	2014
Deferred tax assets	**124**	126
Deferred tax liabilities	**(92)**	(85)
	32	41

29 SUBORDINATED LIABILITY

The Bank issued a subordinated loan of US$540,000,000 to its intermediate holding company, DBS Bank Ltd on 12 December 2012. On 28 August 2014, DBS Bank Ltd assigned the subordinated loan to its parent holding company, DBS Group Holdings Ltd, with terms and conditions remain unchanged. This subordinated loan will mature on 12 December 2022, with an optional repayment date on 13 December 2017 or any interest payment date thereafter until maturity. Interest is payable quarterly and is charged at USD 3-month LIBOR plus 2.5% per annum. The subordinated loan will be converted into ordinary shares at the point of non-viability as determined by the Hong Kong Monetary Authority. The subordinated loan is Basel III-compliant and qualifies as Tier 2 capital for the purpose of computing the Bank's capital adequacy ratios.

30 CAPITAL AND RESERVES

(a) Share capital

	2015 Number of shares (millions)	2015 HK$ millions	2014 Number of shares (millions)	2014 HK$ millions
At 1 January	**7,000**	**7,595**	7,000	7,000
Transition to no-par value regime (i)	**–**	**–**	–	595
At 31 December	**7,000**	**7,595**	7,000	7,595

(i) In accordance with the transitional provisions set out in section 37 of Schedule 11 to Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Bank's share capital.

(b) Reserves

In HK$ millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Share premium				
As at 1 January	**–**	595	**–**	595
Transition to no-par value regime (Note 30(a)(i))	**–**	(595)	**–**	(595)
As at 31 December	**–**	–	**–**	–
Other reserves				
(i) Capital reserve				
As at 1 January and 31 December	**12**	12	**–**	–
(ii) Investments revaluation reserve from available-for-sale financial investments				
As at 1 January	**61**	54	**61**	54
Net valuation taken to equity	**1**	159	**1**	159
Transferred to income statement	**(56)**	(151)	**(56)**	(151)
Deferred income tax credited / (charged) to equity	**9**	(1)	**9**	(1)
As at 31 December	**15**	61	**15**	61
(iii) Properties revaluation reserve				
As at 1 January	**98**	98	**98**	98
Transferred to retained earnings	**(71)**	–	**(71)**	–
As at 31 December	**27**	98	**27**	98
(iv) General reserve				
As at 1 January and 31 December	**2,399**	2,399	**2,285**	2,285
Total other reserves	**2,453**	2,570	**2,327**	2,444
Retained earnings				
As at 1 January	**22,666**	21,109	**22,335**	20,836
Profit attributable to shareholders	**3,130**	3,057	**3,373**	2,999
Transferred from other reserves	**71**	–	**71**	–
Dividend (Note 13)	**(2,500)**	(1,500)	**(2,500)**	(1,500)
As at 31 December	**23,367**	22,666	**23,279**	22,335
Total reserves	**25,820**	25,236	**25,606**	24,779

The investments revaluation reserve represents the cumulative net change in the fair value of available-for-sale financial investments.

Properties revaluation reserve represents cumulative revaluation surplus of land and buildings identified as investment properties.

The general reserve is comprised of transfers from the previous years' retained earnings.

As at 31 December 2015, HK$1,159 million (2014: HK$1,327 million) was earmarked as the regulatory reserve from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Valuation process

The valuation processes within the Group are governed by the Valuation Policy and Supporting Standards. These policy and standards apply to financial assets and liabilities where mark-to-market or model valuation is required. The overall framework is endorsed by Group Market and Liquidity Risk Committee and Risk Executive Committee before approval by the Board Risk Management Committee.

The Valuation Policy and supporting Standards govern the revaluation of all financial assets and liabilities that are fair value measured, covering both market prices as well as model inputs. Financial assets and liabilities are marked directly using reliable and independent market prices or by using reliable and independent market parameters (as model inputs) in conjunction with a valuation model. Products with a liquid market or those traded via an exchange will fall under the former while most over-the-counter ("OTC") products will form the latter. Market parameters include interest rate yield curves, credit spreads, exchange prices, dividend yields, option volatilities and foreign exchange rates.

Valuation models go through an assurance process carried out by the Risk Management Group, independent of the model developers. This assurance process would review the underlying methodology including its logic and conceptual soundness together with the model inputs and outputs. Model assurances are conducted prior to implementation and subject to regular review or when there are significant changes arising from market or portfolio changes. Where necessary, the Group also imposes model reserves and other adjustments in determining fair value. Models are approved by the Group Market and Liquidity Risk Committee.

The majority of OTC derivatives are traded in active markets. Valuations are determined using generally accepted models (discounted cash flows, Black-Scholes model, interpolation techniques) based on quoted market prices for similar instruments or underlyings or market parameters.

A process of independent price verification ("IPV") is in place to establish the accuracy of the market parameters used when the marking is performed by the Front Office. The IPV process entails independent checks to compare traders' marks to independent sources such as broker/dealer sources or market consensus providers. The results of the IPV are reviewed by independent control functions on a monthly basis.

For illiquid financial instruments where mark-to-market is not possible, the Group will value these products using an approved valuation model. Prices and parameters used as inputs to the model or to any intermediate technique involving a transformation process must be derived using approved market reliable sources. Where possible, the inputs must be checked against multiple sources for reliability and accuracy. Reliance will be placed on the model assurance process established by Risk Management Group for assurance of valuation models as fit for purpose.

The Group uses various market accepted benchmark interest rates such as LIBOR and Swap Offer Rates to determine the fair value of the financial instruments.

Where unobservable inputs are used in these models resulting in Level 3 classification, valuation adjustments or reserves will be taken for the purpose of adjusting for uncertainty in valuations. Valuation adjustment or reserve methodologies are used to substantiate the unobservable inputs and attempt to quantify the level of uncertainty in valuations. Such methodologies are governed by the Valuation Policy and supporting Standards and require approval by the Group Market and Liquidity Risk Committee.

The main valuation adjustments and reserves are described below:

Model and Parameter Uncertainty Adjustments
Valuation uncertainties may occur during fair value measurement either due to uncertainties in the required input parameters or uncertainties in the modeling methods used in the valuation process. In such situations, adjustments may be necessary to take these factors into account.

For example, where market data such as prices or rates for an instrument are no longer observable after an extended period of time, these inputs used to value the financial instruments may no longer be relevant in the current market conditions. In such situations, adjustments may be necessary to address the pricing uncertainty arising from the use of stale market data inputs.

Credit Valuation Adjustments
Credit valuation adjustments are taken to reflect the impact on fair value of counterparty credit risk. Credit valuation adjustments are based upon the creditworthiness of the counterparties, magnitude of the current or potential exposure on the underlying transactions, netting and collateral arrangements, and the maturity of the underlying transactions.

Day 1 Profit or Loss (P&L) Reserve
In situations where the market for an instrument is not active and its fair value is established using a valuation model based on significant unobservable market parameters, Day 1 P&L reserve is utilised to defer the P&L arising from the difference between the transaction price and the model value. A market parameter is defined as being significant when its impact on the Day 1 P&L is greater than an internally determined threshold. The Day 1 P&L reserve is released to profit or loss as the parameters become observable or the transaction closed out or amortised over the duration of the transaction. At year end, the unamortised Day 1 P&L is not material.

Bid Offer Adjustments
The Group often holds, at varying points in time, both long or short positions in financial instruments which are valued using mid market levels. Bid offer adjustments are then made to account for close-out costs.

(b) Fair value hierarchy

The fair value hierarchy accords the highest level to observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities and the lowest level to unobservable inputs. The fair value measurement of each financial instrument is categorised in accordance to the same level of the fair value hierarchy as the input with the lowest level that is significant to the entire measurement. If unobservable inputs are deemed as significant, the financial instrument will be categorised as Level 3.

Financial instruments that are valued using quoted prices in active markets are classified as Level 1 of the valuation hierarchy. These would include government and sovereign securities, listed equities and corporate debt securities which are actively traded. Derivatives contracts which are traded in an active exchange market are also classified as Level 1 of the valuation hierarchy.

Where fair value is determined using quoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group will determine the fair value based on valuation techniques that use market parameters as inputs including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include corporate debt securities, repurchase, reverse repurchase agreements and most of the Group's over-the-counter derivatives.

The Group classifies financial instruments as Level 3 when there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value. These would include all input parameters which are derived from historical data for example asset correlations or certain volatilities as well as unquoted equity securities. The fair value of unquoted equity securities is measured in comparison with recent transactions in the equity of the company in question or comparable companies in similar industries. Level 3 inputs also include all quoted security prices that have not been updated for more than 3 months, quoted proxies in active markets for non-similar asset classes (e.g. bonds valued using credit default swap spreads), as well as prices/valuations that are obtained from counterparties. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The following table presents assets and liabilities measured at fair value, classified by level of the fair value hierarchies:

In HK$ millions	Level 1	Level 2	Level 3	Total
2015				
Assets				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	**2,458**	**–**	**–**	**2,458**
– Bank and corporate securities	**1,315**	**18**	**1**	**1,334**
Available-for-sale financial assets				
– Government securities and treasury bills	**14,350**	**214**	**–**	**14,564**
– Bank and corporate securities	**6,382**	**11**	**–**	**6,393**
Derivatives	**–**	**7,363**	**–**	**7,363**
Liabilities				
Payable in respect of short sale of securities	**1,780**	**–**	**–**	**1,780**
Financial liabilities designated at fair value through profit or loss	**–**	**1,412**	**–**	**1,412**
Derivatives	**–**	**7,626**	**–**	**7,626**

In HK$ millions	Level 1	Level 2	Level 3	Total
2014				
Assets				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	4,196	–	–	4,196
– Bank and corporate securities	1,636	702	–	2,338
Available-for-sale financial assets				
– Government securities and treasury bills	18,436	281	–	18,717
– Bank and corporate securities	7,627	16	–	7,643
Derivatives	–	5,094	–	5,094
Liabilities				
Payable in respect of short sale of securities	3,738	–	–	3,738
Financial liabilities designated at fair value through profit or loss	–	4,079	–	4,079
Derivatives	–	5,216	–	5,216

During the year, there were no transfers between Level 1 and Level 2, while the Level 3 financial assets increased from Nil to HK$1 million representing net purchase during the year. The Group's policy is to recognise transfers between the levels of the fair value hierarchy as at the end of the reporting period during the change occurred.

(c) *Fair value of financial assets and liabilities not carried at fair value*

For financial assets and liabilities not carried at fair value on the financial statements, the Group has ascertained that their fair values were not materially different from the carrying amounts at year end as shown below. The bases of arriving at their fair values are as follows:

(i) Due from banks

The estimated fair value of placements with and advances to banks is based on the discounted cash flows using the prevailing money market interest rates for placements and advances with similar remaining maturity.

(ii) Loans and advances to customers

The fair value approximates their carrying amount as majority of the loans and advances to customers are on floating rate terms.

(iii) Bank and corporate securities – loans and receivables

The fair values are determined based on independent market quotes, where available. Where market prices are not available, fair values are estimated using discounted cash flow method. The fair value is set out in Note 18.

(iv) Due to banks and Deposits and balances from customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of deposits and other borrowings with fixed interest rates is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

(v) Certificates of deposit issued

The estimated fair value of certificates of deposit issued is based on discounted cash flows using the prevailing money market interest rates with similar remaining maturity.

(vi) Subordinated liability

The fair value of subordinated liability approximates its carrying amount as it is on floating rate term and bears interest at prevailing market interest rate.

32 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) *Analysis of changes in financing activities during the year*

In HK$ millions	**Certificates of deposit issued**	**Subordinated liability**
Balance as at 1 January 2014	7,564	4,187
Cash inflow from financing activities	2,213	–
Cash outflow from financing activities	(4,820)	–
Revaluation	(5)	–
Amortisation of discount	9	–
Exchange differences and other adjustments	–	2
Balance as at 31 December 2014	**4,961**	**4,189**
Cash inflow from financing activities	**623**	**–**
Cash outflow from financing activities	**(1,094)**	**–**
Revaluation	**(13)**	**–**
Amortisation of discount	**2**	**–**
Exchange differences and other adjustments	**–**	**(4)**
Balance as at 31 December 2015	**4,479**	**4,185**

(b) *Analysis of the balances of cash and cash equivalents*

In HK$ millions	**2015**	**2014**
Cash and balances with central banks	**6,305**	1,969
Due from banks		
– Balances with banks	**3,136**	4,234
– Placements with and advances to banks repayable with original maturity within three months	**29,482**	46,358
Bills and notes repayable with original maturity within three months	**1,358**	3,005
	40,281	55,566

33 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

(a) Derivatives

The Group uses financial derivatives to hedge the positions of the Group. It also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short term market movements in bond price, currency and interest rate. The Group places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The following is a summary of each significant type of derivatives:

In HK$ millions	Contract/ notional amount	Credit risk-weighted amount	Positive fair values	Negative fair values
2015				
Derivatives held for trading				
Foreign exchange derivatives				
– Forwards	**113,141**	**3,274**	**2,127**	**2,094**
– Swaps	**231,888**	**390**	**1,241**	**1,611**
– Options purchased	**139,294**	**5,911**	**3,279**	**264**
– Options written	**139,825**	**924**	**265**	**3,289**
	624,148	**10,499**	**6,912**	**7,258**
Interest rate derivatives				
– Swaps	**19,962**	**144**	**256**	**272**
– Options purchased	**200**	**–**	**–**	**–**
– Options written	**200**	**–**	**–**	**–**
	20,362	**144**	**256**	**272**
Equity derivatives	**692**	**30**	**15**	**15**
Commodity derivatives	**195**	**34**	**34**	**34**
Total derivatives held for trading	**645,397**	**10,707**	**7,217**	**7,579**
Derivatives designated and qualified as fair value hedges				
Interest rate derivatives				
– Swaps	**5,320**	**46**	**182**	**51**

In HK$ millions	Contract/ notional amount	Credit risk-weighted amount	Positive fair values	Negative fair values
2014				
Derivatives held for trading				
Foreign exchange derivatives				
– Forwards	208,173	3,998	1,703	1,620
– Swaps	141,063	345	407	637
– Options purchased	171,622	6,329	2,215	312
– Options written	171,150	379	312	2,222
	692,008	11,051	4,637	4,791
Interest rate derivatives				
– Swaps	28,603	220	320	329
– Options purchased	6	–	–	–
– Options written	6	–	–	–
	28,615	220	320	329
Equity derivatives	1,180	37	26	26
Total derivatives held for trading	721,803	11,308	4,983	5,146
Derivatives designated and qualified as fair value hedges				
Interest rate derivatives				
– Swaps	5,648	53	188	80

The above tables include derivatives and embedded derivatives. The amounts (except credit-risk weighted amounts) are shown on a gross basis and do not take into account the effect of bilateral netting arrangements. The positive and negative fair values of embedded derivatives included in above amounted to HK$36 million and HK$4 million respectively (2014: HK$77 million and HK$10 million respectively). The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at the end of the reporting period; they do not represent amounts at risk.

The credit risk-weighted amounts as at 31 December 2015 and 31 December 2014 are the amounts which have been taken into account the effect of bilateral netting arrangements and have been calculated in accordance with the Banking (Capital) Rules.

(b) Hedging activities

As at 31 December 2015, the Group has interest rate swap agreements in place with a notional amount of HK$5,320 million (2014: HK$5,648 million) to hedge the exposure arising from changes in the fair value as a result of market interest rate fluctuation of certain financial investments and certificates of deposit issued. The hedging derivatives and hedged items have similar critical terms.

The gains on the hedging instruments are HK$58 million (2014: gains of HK$63 million). The losses on the hedged items attributable to the hedged risk are HK$59 million (2014: losses of HK$62 million).

34 CONTINGENT LIABILITIES AND COMMITMENTS

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

In HK$ millions	2015	2014
Direct credit substitutes	**595**	800
Transaction-related contingencies	**1,860**	1,346
Trade-related contingencies	**6,913**	8,455
Other commitments with an original maturity of not more than one year	**502**	1,155
Other commitments with an original maturity of more than one year	**1,392**	783
Other commitments which are unconditionally cancellable	**151,112**	144,656
	162,374	157,195
Credit risk-weighted amount	**15,414**	15,287

The information is prepared with reference to the Banking (Capital) Rules. For accounting purposes, acceptances are recognised on the statement of financial position in “Other assets” and “Other liabilities” in accordance with HKAS 39 Financial Instruments: Recognition and Measurement. For the purpose of the Banking (Capital) Rules, acceptances are included in the capital adequacy calculation as if they were trade-related contingencies. The contract amount of acceptances included in the table above was HK$1,618 million (2014: HK$1,871 million).

In October 2012, the Group renewed a five-year outsourcing agreement, with respect to the provision of information technology and related support to the Group’s operation in Hong Kong. There are various termination clauses contained within the agreement that under certain circumstances the service company could require the Group to pay termination cost on early termination of the contract. The exact amount of termination cost cannot be reliably determined as it is dependent upon business volumes over the period of the contract and on the timing of the termination itself.

35 CAPITAL AND LEASE COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at the end of the reporting period but not yet incurred are as follows:

In HK$ millions	2015	2014
Expenditure contracted but not provided for	**109**	68
Expenditure authorised but not contracted for	**27**	18
	136	86

(b) Lease commitments

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2015		2014	
In HK$ millions	Properties	Others	Properties	Others
Not later than one year	**268**	**11**	215	10
Later than one year and not later than five years	**646**	**–**	463	–
Later than five years	**534**	**–**	7	–
	1,448	**11**	685	10

Certain non-cancellable operating leases included in the table above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates or according to the special conditions as stipulated in the leases.

36 SECURITIES PLEDGED AND TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers financial assets to third parties or group companies. These transfers may give rise to full or partial derecognition of those financial assets.

The financial assets are primarily the debt securities and treasury bills deposited with central depositories to secure the Group's short position in securities and to facilitate settlement operations, and the transferred securities under securities lending arrangements. These transactions are generally conducted under terms that are in accordance with normal market practice. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In respect of securities lending transactions, the counterparty is allowed to transfer those securities lent, but has an obligation to return the securities at maturity.

The aggregate amount of secured liabilities and the nature and carrying amounts of the assets pledged as security are as follows:

In HK$ millions	2015	2014
Secured liabilities – short positions in securities (Note 27)	**1,780**	3,738
Assets pledged as security		
– Treasury bills	**1,638**	2,591
– Other securities	**156**	1,136
	1,794	3,727

The assets pledged as security included financial assets at fair value through profit or loss of HK1,783 million (2014: HK$3,721 million).

There was no securities lending transaction outstanding as at 31 December 2015 and 2014.

37 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are presented net when there is a legally enforceable right to set off the recognised amounts, and there is intention to settle them on a net basis or to realise the asset and settle the liability simultaneously. As at 31 December 2015, no financial assets and liabilities were offset on the statement of financial position (2014 : Nil).

Financial assets and liabilities subject to netting agreement but not offset on the statement of financial position

The Group enters into master netting arrangements with counterparties where it is appropriate and feasible to do so to mitigate counterparty risk. The credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis. Master netting arrangements do not result in an offset of financial assets and liabilities on the statement of financial position, as the legal right to set off the transactions is conditional upon default.

These agreements include derivative master agreements (including the International Swaps and Derivatives Association (ISDA) Master Agreement, global master repurchase agreements and global securities lending agreements). The collaterals received and posted under these agreements are generally conducted under terms that are in accordance with normal market practice. In these agreements, the counterparty is typically allowed to sell or repledge those non-cash collaterals (i.e. securities) lent or transferred, but has an obligation to return the securities at maturity. If the securities decrease in value, the Group may, in certain circumstances, be required to pay additional cash collateral, and typically the counterparty has recourse only to the securities. Please see Note 38 for additional disclosures. Furthermore, the Group's short position in securities was secured by the deposit of assets under sale and repurchase agreements.

In addition, the Group receives cash and other collaterals such as marketable securities to reduce its credit exposure. The Group also engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Please see Note 38.

The disclosures set out in the tables below pertain to financial assets and liabilities that are not offset in the Group's statement of financial position but are subject to enforceable master netting arrangement or similar agreement that covers similar financial instruments. The disclosures enable the understanding of both the gross and net amounts (for IFRS and US GAAP readers respectively), as well as provide additional information on how such credit risk is mitigated.

In HK$ millions Types of financial assets/ liabilities	Carrying amounts on statement of financial postion (A)	Financial instruments (including non-cash collateral)[(a)] (B)	Cash collateral received / pledged (C)	Net amounts[(b)] (D)= (A)-(B)-(C)
2015				
Financial assets				
Positive fair values for financial derivatives	**7,363**	**1,709**	**435**	**5,219**
Financial liabilities				
Negative fair values for financial derivatives	**7,626**	**1,705**	**3,682**	**2,239**
Payable in respect of short sale of securities	**1,780**	**1,780**	**–**	**–**
Total	**9,406**	**3,485**	**3,682**	**2,239**

In HK$ millions Types of financial assets/ liabilities	Carrying amounts on statement of financial postion (A)	Financial instruments (including non-cash collateral)[(a)] (B)	Cash collateral received / pledged (C)	Net amounts[(b)] (D)= (A)-(B)-(C)
2014				
Financial assets				
Positive fair values for financial derivatives	5,094	2,036	250	2,808
Financial liabilities				
Negative fair values for financial derivatives	5,216	2,032	–	3,184
Payable in respect of short sale of securities	3,738	3,727	–	11
Total	8,954	5,759	–	3,195

(a) Amounts under "Financial instruments (including non-cash collateral)" represent the amounts of financial liabilities/assets position and other non-cash collateral that are subject to netting agreement or similar arrangements, capped at the carrying amount of the financial instruments.

(b) Net amounts represent
- *Financial instruments that are not subject to netting agreement or similar arrangements; or*
- *Financial assets/liabilities that are subject to netting agreement or similar arrangements but the Group's counterparty does not have equivalent financial liabilities/assets position with the Group to offset upon default.*

38 FINANCIAL RISK MANAGEMENT

Risk governance

Under the risk governance framework, the Board of Directors, through the Board Risk Management Committee (BRMC), sets risk appetite, oversees the establishment of robust enterprise-wide risk management policies and processes, and set risk limits to guide risk-taking within the Group.

(a) Credit risk

Credit risk arises out of the Group's daily activities in various areas of business – lending to retail, corporate and institutional customers; trading activities such as foreign exchange, derivatives and debt securities; and settlement of transactions. Credit risk is one of the most significant measurable risks faced by the Group.

Lending exposures are typically represented by the notional value or principal amount of on-balance sheet financial instruments. Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are contingent in nature. Pre-settlement Credit Exposures (PCE) for trading and securities transactions is measured taking into account collateral and netting arrangements. Settlement risk is the risk of loss due to the counterparty's failure to perform its obligation after the Group has performed its obligation under a contract or agreement (through either an advance of funds or securities) at the settlement date.

Credit Risk Management

The Group's approach to credit risk management is formulated on the following building blocks:

- **Policies**

As established in the DBSH's Credit Risk Management Framework, the dimensions of credit risk and the scope of its application are defined. Senior management sets the overall direction and policy for managing credit risk at the enterprise level. The DBSH's Core Credit Risk Policy (CCRP) sets forth the principles by which DBS conducts its credit risk management and control activities. This policy, supplemented by a number of operational policies, ensures consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across DBS, and provides guidance in the formulation of business-specific and/or location-specific credit risk policies. The business-specific and/or location-specific credit policies are established to provide greater details on the implementation of the credit principles within the CCRP and are adapted to reflect different credit environments and portfolio risk profiles.

Collateral

Where possible, the Group takes collateral as a secondary recourse to the borrower. Collateral includes cash, marketable securities, properties, trade receivables, inventory and equipment and other physical and financial collateral. The Group may also take fixed and floating charges on the assets of borrowers. The Group has put in place policies to determine the eligibility of collateral for credit risk mitigation, which include requiring specific collaterals to meet minimum operational requirements in order to be considered as effective risk mitigants.

When a collateral arrangement is in place for financial market counterparties covered under market standard documentation (such as Master Repurchase Agreements and International Swaps and Derivatives Association (ISDA) agreements), collateral received is marked to market on a frequency mutually agreed with the counterparties.

Collateral taken for commercial banking is revalued periodically, depending on the type of collateral.

In times of difficulty, the Group will review each customer specific facts and circumstances to assist them in restructuring their repayment liabilities.

Other Risk Mitigants

The Group manages its credit exposure from derivatives, repo and other repo-style transactions by entering into netting and collateral arrangements with counterparties where it is appropriate and feasible to do so. The credit risk associated with outstanding contracts with positive mark to market is reduced by master netting arrangements to the extent that if an event of default occurs, all amounts with a single counterparty in a netting eligible jurisdiction are settled on a net basis.

The Group also uses guarantees, as credit risk mitigants. While the Group may accept guarantees from any counterparty, it sets internal thresholds for considering guarantors to be eligible for credit risk mitigation.

- **Risk Methodologies**

Managing credit risk is performed through the Group's deep understanding of our customers, the businesses they are in and the economies in which they operate. This is facilitated through the use of credit ratings and lending limits. The Group uses an array of rating models in both the corporate and retail space.

Retail exposures are typically managed on a portfolio basis throughout the entire customers' account lifecycle. The retail exposure credit risk is assessed based on credit scoring models, credit bureau record, internal and available external customers' behavior records and supplemented by risk assets acceptance criteria.

Wholesale exposures are assessed using approved credit models, reviewed and analysed by experienced credit risk managers taking into consideration the relevant credit risk factors. For portfolios within the SME segment, the Group also uses a programme-based approach for a balanced management of risks and rewards. Credit extensions are proposed by the business unit and are approved by the credit risk function based on independent credit assessment, while also taking into account the business strategies determined by senior management.

The Group actively monitors and manages its exposure to counterparties in over-the-counter (OTC) derivative trades to protect its statement of financial position in the event of a counterparty default. DBSH has established methodology on wrong-way risk.

Concentration Risk Management

The Group's risk management processes aim to ensure that an acceptable level of risk diversification is maintained across the Group on an ongoing basis. Limits are established and regularly monitored in respect of country exposures and major industry groups, as well as for single counterparty exposures.

Country Risk

Country risk is the risk of loss which is specifically attributed to events in a specific country (or a group of countries). It includes political risk, exchange rate risk, economic risk, sovereign risk and transfer & convertibility (T&C) risk. The Group manages country risk as part of concentration risk management under the risk appetite framework.

Stress Testing

The Bank performs various types of credit stress tests which are directed by the regulators or driven by internal requirements and management. Credit stress tests are performed at a portfolio or sub-portfolio level and are generally meant to assess the impact of changing economic conditions on asset quality, earnings performance, capital adequacy and liquidity.

- **Processes, Systems and Reports**

The end-to-end credit process is constantly subject to review and improvement through various front-to-back initiatives involving the Business, Risk Management, Operations and other key stakeholders.

Non-performing assets

The Group classifies its credit facilities as 'Performing Assets' or 'Non-performing assets' in accordance with Hong Kong Monetary Authority ("HKMA")'s loan classification framework.

Refer to Note 2(h) for the Group's accounting policies on the impairment of financial assets. In general, impairment allowance is made when there is objective evidence of impairment as a result of the occurrence of loss events that will have an impact on the estimated future cash flows.

When required, the Group will take possession of collateral it holds as securities and will dispose of them as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

Maximum exposure to credit risk

The maximum exposure to credit risk for financial assets recognised on the statement of financial position is the carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. Refer to Note 34 for the contractual amounts of each significant class of contingent liabilities and commitments.

The Group's exposures to credit risk, measured using the expected gross credit exposures that will arise upon a default of the end obligor are as shown in the disclosures required under the Banking (Disclosure) Rules.

Analysis of Collateral
Whilst the Group's maximum exposure to credit risk is the carrying amount of the assets or, in the case of off-balance sheet instruments, the amount guaranteed, committed, accepted or endorsed, the likely exposure may be lower due to offsetting collateral, credit guarantees and other actions taken to mitigate the Group's exposure.

The description of collateral for each class of financial asset is set out below:

Balances with central banks, government securities and treasury bills, due from banks and bank and corporate debt securities
Collateral is generally not sought for these assets.

Derivatives
The Group maintains collateral agreements and enters into master netting agreements with most of the counterparties for derivative transactions. The impact of netting arrangements recognised for the computation of capital adequacy ratio is shown in the disclosures required under the Banking (Disclosure) Rules.

Loans and advances to customers, contingent liabilities and commitments
Certain loans and advances to customers, contingent liabilities and commitments are typically collateralised to a substantial extent. In particular, residential mortgage exposures are generally fully secured by residential properties. Income-producing real estate, which is a sub-set of the Specialised Lending exposure, are fully secured by the underlying assets financed.

The extent to which credit exposures are covered by eligible collateral under the Banking (Capital) Rules, besides real estate, after the application of the requisite regulatory hair-cuts, is shown in the disclosures required under the Banking (Disclosure) Rules. The amount shown is a sub-set of the actual collateral arrangements entered by the Group as the Banking (Capital) Rules imposes strict legal and operational standards before collateral can be admitted as credit risk mitigants. As a result, certain collateral arrangements which do not meet its criteria will not be included. Certain collateral types which are not permitted as credit risk mitigants for credit exposures under the Standardised Approach are also excluded.

Loans and advances to customers by credit quality

In HK$ millions	2015	2014
Neither past due nor impaired	**156,545**	182,218
Past due but not impaired	**2,086**	2,508
Impaired	**2,927**	1,242
	161,558	185,968

Impaired loans and advances to customers are individually assessed customer advances with objective evidence of impairment.

(i) Analysis of loans and advances to customers that were neither past due nor impaired by reference to the loan gradings under the Hong Kong Monetary Authority guidelines

In HK$ millions	Pass	Special mention	Total
2015			
Manufacturing	**9,874**	**254**	**10,128**
Building and construction	**25,376**	**217**	**25,593**
Housing loans	**26,064**	**–**	**26,064**
General commerce	**52,371**	**635**	**53,006**
Transportation, storage and communication	**12,142**	**1**	**12,143**
Financial institutions, investments and holding companies	**3,590**	**–**	**3,590**
Professionals and private individuals (except housing loans)	**22,290**	**–**	**22,290**
Others	**3,688**	**43**	**3,731**
	155,395	**1,150**	**156,545**

In HK$ millions	Pass	Special mention	Total
2014			
Manufacturing	9,728	2,026	11,754
Building and construction	25,021	1,266	26,287
Housing loans	29,386	5	29,391
General commerce	62,189	6,899	69,088
Transportation, storage and communication	10,959	582	11,541
Financial institutions, investments and holding companies	4,960	–	4,960
Professionals and private individuals (except housing loans)	21,485	35	21,520
Others	7,068	609	7,677
	170,796	11,422	182,218

(ii) Loans and advances to customers that were past due but not impaired

In HK$ millions	Past due: Less than 1 month	1-2 months	2-3 months	More than 3 months	Total
2015					
Manufacturing	**52**	**12**	**1**	**–**	**65**
Building and construction	**216**	**13**	**–**	**–**	**229**
Housing loans	**504**	**8**	**9**	**–**	**521**
General commerce	**272**	**52**	**61**	**–**	**385**
Transportation, storage and communication	**90**	**11**	**7**	**78**	**186**
Financial institutions, investments and holding companies	**–**	**–**	**–**	**–**	**–**
Professionals and private individuals (except housing loans)	**274**	**19**	**1**	**302**	**596**
Others	**103**	**1**	**–**	**–**	**104**
	1,511	**116**	**79**	**380**	**2,086**

In HK$ millions	Past due: Less than 1 month	1-2 months	2-3 months	More than 3 months	Total
2014					
Manufacturing	52	2	1	–	55
Building and construction	280	10	–	–	290
Housing loans	530	37	–	–	567
General commerce	691	12	2	–	705
Transportation, storage and communication	155	10	8	107	280
Financial institutions, investments and holding companies	–	–	–	–	–
Professionals and private individuals (except housing loans)	283	16	1	300	600
Others	9	2	–	–	11
	2,000	89	12	407	2,508

Loans and advances to customers that were past due by more than 3 months represent individually insignificant advances which are subject to collective impairment allowances assessment.

(iii) Impaired loans and advances to customers

In HK$ millions	2015	2014
Manufacturing	**251**	273
Building and construction	**181**	101
Housing loans	**64**	46
General commerce	**1,393**	757
Transportation, storage and communication	**10**	7
Financial institutions, investments and holding companies	**–**	–
Professionals and private individuals (except housing loans)	**3**	27
Others	**1,025**	31
	2,927	1,242

	2015 HK$'M	2015 % of gross Loans and advances to customers	2014 HK$'M	2014 % of gross Loans and advances to customers
Gross impaired advances	**2,927**	**1.81**	1,242	0.67
Individual impairment allowances	**(524)**		(569)	
	2,403		673	
Impaired advances covered by collateral	**1,547**		671	

The individual impairment allowances were made after taking into account the value of collateral in respect of the above advances.

Analysis of individual impairment allowances

In HK$ millions	As at 1 January 2015	Amounts written off	Recoveries of advances written off in previous years	Net charge to income statement	Others	As at 31 December 2015
Manufacturing	**152**	**(68)**	**2**	**4**	**–**	**90**
Building and construction	**17**	**(7)**	**–**	**8**	**–**	**18**
Housing loans	**–**	**–**	**2**	**(2)**	**–**	**–**
General commerce	**350**	**(123)**	**3**	**176**	**1**	**407**
Transportation, storage and communication	**7**	**(1)**	**–**	**1**	**–**	**7**
Professionals and private individuals (except housing loans)	**39**	**(7)**	**18**	**(50)**	**–**	**–**
Others	**4**	**(5)**	**1**	**2**	**–**	**2**
	569	**(211)**	**26**	**139**	**1**	**524**

In HK$ millions	As at 1 January 2014	Amounts written off	Recoveries of advances written off in previous years	Net charge to income statement	Others	As at 31 December 2014
Manufacturing	242	(109)	1	18	–	152
Building and construction	9	(1)	–	9	–	17
Housing loans	–	–	3	(3)	–	–
General commerce	363	(140)	1	131	(5)	350
Transportation, storage and communication	1	–	1	5	–	7
Financial institutions, investments and holding companies	103	(103)	–	–	–	–
Professionals and private individuals (except housing loans)	38	–	–	7	(6)	39
Others	37	–	–	(33)	–	4
	793	(353)	6	134	(11)	569

Analysis of collective impairment allowances

In HK$ millions	As at 1 January 2015	Additions/ (Releases)	As at 31 December 2015
Manufacturing	**66**	**(10)**	**56**
Building and construction	**97**	**16**	**113**
Housing loans	**1**	**(1)**	**–**
General commerce	**235**	**20**	**255**
Transportation, storage and communication	**133**	**(26)**	**107**
Financial institutions, investments and holding companies	**2**	**2**	**4**
Professionals and private individuals (except housing loans)	**266**	**(6)**	**260**
Others	**30**	**1**	**31**
	830	**(4)**	**826**

In HK$ millions	As at 1 January 2014	Additions/ (Releases)	As at 31 December 2014
Manufacturing	49	17	66
Building and construction	92	5	97
Housing loans	2	(1)	1
General commerce	209	26	235
Transportation, storage and communication	113	20	133
Financial institutions, investments and holding companies	5	(3)	2
Professionals and private individuals (except housing loans)	206	60	266
Others	37	(7)	30
	713	117	830

Geographical concentration

The analysis of the Group's gross advances to customers 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.

In HK$ millions	Loans	Trade Finance (including trade bills)	Total
As at 31 December 2015			
Hong Kong	**113,116**	**21,676**	**134,792**
Mainland China	**3,979**	**14,304**	**18,283**
Others	**6,916**	**1,567**	**8,483**
	124,011	**37,547**	**161,558**
As at 31 December 2014			
Hong Kong	121,754	21,096	142,850
Mainland China	7,296	27,321	34,617
Others	6,739	1,762	8,501
	135,789	50,179	185,968

Analysis of impaired advances, individual and collective impairment allowances for loans and trade finance which accounted for 10% or more of the Group's gross advances to customers:

In HK$ millions	Impaired advances to customers	Individual impairment allowances	Collective impairment allowances
As at 31 December 2015			
Hong Kong	**1,868**	**404**	**707**
Mainland China	**107**	**81**	**19**
As at 31 December 2014			
Hong Kong	1,072	451	665
Mainland China	108	89	36

(b) Market risk

The Group's exposure to market risk is categorised into:

- Trading portfolios: Arising from positions taken for (i) market-making (ii) client-facilitation and (iii) benefiting from market opportunities.
- Non-trading portfolios: Arising from (i) positions taken to manage the interest rate risk of the Group's retail and commercial banking assets and liabilities (ii) debt securities comprising of investments held for yield and/or liquidity risk management (iii) strategic stakes in entities and (iv) structural foreign exchange risk arising mainly from the Group's strategic investments which are denominated in currencies other than the Hong Kong dollar.

Market Risk Management
The Group's approach to market risk management is formulated on the following building blocks:

- **Policies**

The Market Risk Framework, approved by the BRMC, sets out the Group's overall approach towards market risk management. The Core Market Risk Policy ("CMRP") establishes the base standards for market risk management within the Group. The Policy Implementation Guidance and Requirements ("PIGR") complements the CMRP and sets out guidance and requirements with more details for specific subject matters. Both CMRP and PIGR facilitate the identification, measurement, control, monitoring and reporting of market risk in a consistent manner within the Group.

- **Risk Methodologies**

Value-at-Risk (VaR) is a method that computes the potential losses on risk positions as a result of movements in market rates and prices, over a specified time horizon and to a given level of confidence. Our VaR model is based on historical simulation with a one-day holding period Expected Shortfall (ES) is used by the Group to monitor and limit market risk exposures. ES is the average of potential losses beyond the given 97.5% level of confidence (with effect from 2 November 2015). Previously, we used the 95% level of confidence. In the third quarter of 2015, we improved our credit spread risk modelling by deriving an implied spread from the bond prices and removing the use of proxies. ES is supplemented by risk control metrics such as sensitivities to risk factors and loss triggers for management action.

We conduct backtesting to verify the predictiveness of the VaR model. For backtesting, VaR at the 99% level of confidence and over a one-day holding period is used.

VaR models such as historical simulation VaR permit the estimation of the aggregate portfolio market risk potential loss due to the changes of a range of relevant market risk factors and instruments. VaR models have limitations which include but are not limited to: (i) past changes in market risk factors may not provide adequate predictions of future market movements and (ii) may underestimate the risk arising from severe market risk related events.

To monitor our vulnerability to unexpected but plausible extreme market risk related events, we have implemented an extensive stress testing policy for market risk where regular and multiple stress tests were run covering trading and non-trading portfolios through a combination of historical and hypothetical scenarios depicting risk factors movement.

ES is the key market risk metric used to manage our assets and liabilities' except for credit spread risk under Loans and Receivables where it is under the credit framework. We manage banking book interest rate risk arising from mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges), including basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. Behavioural assumptions are applied in managing interest rate risk of deposits with indeterminate maturities. We measure interest rate risk in the banking book on a weekly basis.

- **Processes, Systems and Reports**

Robust internal control processes and systems are designed and implemented to support the Group's approach for market risk management. Additionally, regular reviews of these control processes and systems are conducted. These reviews provide senior management with objective and timely assessments of the control processes and systems' appropriateness and effectiveness.

The day-to-day market risk monitoring, control and analysis is managed by the RMG Market and Liquidity Risk unit – an independent risk management function that reports to the Senior Risk Executive. DBS Bank Ltd provides RMG Market and Liquidity Risk with model analytics, risk infrastructure and risk report production support.

Market Risk Metrics
The Group level ES considers both trading and non-trading portfolios. The Group level ES is tabulated below, showing the period-end, average, high and low ES based on the legacy 95% and new 97.5% levels of confidence.

Group (95% ES)

		1 Jan 2015 to 31 Dec 2015		
In HK$ millions	**As at 31 Dec 2015**	**Average**	**High**	**Low**
Total	**94.7**	**103.6**	**129.0**	**76.4**

		1 Jan 2014 to 31 Dec 2014		
In HK$ millions	**As at 31 Dec 2014**	**Average**	**High**	**Low**
Total	36.3	36.7	47.5	27.5

Group (97.5% ES)

		1 Jan 2015 to 31 Dec 2015		
In HK$ millions	**As at 31 Dec 2015**	**Average**	**High**	**Low**
Total	**109.8**	**121.3**	**152.5**	**89.4**

Note: ES is computed in Singapore dollars and translated into Hong Kong dollars using the prevailing exchange rates on the reporting dates for presentation purpose.

The average Group level ES (based on the legacy 95% level of confidence) in 2015 was higher than that in 2014, mainly due to the introduction of behavioural models for non-maturity deposits in the banking book.

The following table shows the trading portfolios, the period-end, average, high and low ES:

Trading (95% ES)

In HK$ millions	As at 31 Dec 2015	1 Jan 2015 to 31 Dec 2015 Average	High	Low
Total	**3.3**	**5.7**	**9.5**	**3.3**

In HK$ millions	As at 31 Dec 2014	1 Jan 2014 to 31 Dec 2014 Average	High	Low
Total	6.9	7.7	15.7	3.2

Trading (97.5% ES)

In HK$ millions	As at 31 Dec 2015	1 Jan 2015 to 31 Dec 2015 Average	High	Low
Total	**4.3**	**7.1**	**13.2**	**3.9**

Note: *ES is computed in Singapore dollars and translated into Hong Kong dollars using the prevailing exchange rates on the reporting dates for presentation purpose.*

In the Group, the main risk factors driving trading portfolios in 2015 were interest rates, foreign exchange and credit spreads. Trading portfolios' average ES decreased by HK$2 million (26%), contributed largely by a reduction in interest rate risk exposures.

Trading portfolio experienced 3 backtesting exceptions in 2015 compared with 2 in 2014. The exceptions occurred in August when there was pronounced market volatility.

The key market risk drivers of the Group's non-trading portfolios are CNH, HKD and USD interest rate exposures. The economic value impact of changes in interest rates is simulated under various scenarios for the non-trading risk portfolio. The simulated economic value changes are negative HK$688 million and HK$1,002 million (2014: negative HK$557 million and HK$1,103 million) based on parallel shocks to all yield curves of 100 basis points and 200 basis points respectively. The reported figures are based on the worst case of an upward and downward parallel shift in the yield curves.

Equity price risk arises from the Group's strategic investments which are overseen by the Hong Kong Management Committee. The Group's equity exposures booked in its banking book portfolio as at 31 December 2015 and 2014 were not material and were held for long term investment purpose. They were reported as bank and corporate securities in Note 18 to the financial statements and are subject to the accounting and valuation policies set out in Notes 2(f) and 2(h) to the financial statements.

(c) Liquidity risk

The Group's liquidity risk arises from its obligations to honour withdrawals of deposits, repayments of borrowed funds at maturity, and commitments to extend credit and support working capital needs.

The Group seeks to manage its liquidity in a manner that ensures that its liquidity obligations would continue to be honoured under normal as well as adverse circumstances.

Liquidity Risk Management

Liquidity Management and Funding Strategy

The Group strives to develop a diversified funding base with access to funding sources across retail and wholesale channels. In particular, the Group has continuously made inroads in growing, deepening and diversifying its deposit base, spanning retail, wealth management, corporate and institutional customers across markets that it operates in. Supplementing the deposit base, the Group continues to maintain access to wholesale channels, to support the growth of its investor base, as well as to increase flexibility and manage funding cost in capitalising on business opportunities.

In deploying the funds, the Group aims to predominantly fund its lending activities via customer deposits and borrowings. In the event where market conditions lead to insufficient or prohibitively expensive customer funding, flexibility is maintained to fund lending growth with duration matched wholesale funding. With increasing diversification of funding sources, optimising the mismatch in fund deployments against sources with respect to pricing, size, currency and tenor remains challenging. To this end, the Group actively makes use of the foreign exchange swap markets in the conversion of funds across currencies to deploy surplus funds, where practicable.

The Assets and Liabilities Committee regularly reviews the balance sheet composition, trends in loans and deposits, utilisation of wholesale funding, momentum in business activities, market competition, economic outlooks, market conditions and other factors that may affect liquidity in the continual refinement of the Group's funding strategy.

Approach to Liquidity Risk Management
The Group's approach to liquidity risk management comprises the following building blocks:

- **Policies**

The Group Liquidity Risk Management Policy, approved by the BRMC, sets out the Group's overall approach towards liquidity risk management and describes the range of strategies employed by the Group to manage its liquidity. These include maintaining an adequate counterbalancing capacity (comprising liquid assets, the capacity to borrow from the money markets as well as forms of managerial interventions that improve liquidity) to address potential cashflow shortfalls and maintaining diversified sources of liquidity. In the event of a potential or actual crisis, the Group has in place a set of liquidity contingency and recovery plans to ensure that decisive actions are taken to ensure the Group maintains adequate liquidity.

The Policy is supported by Standards which establish the detailed requirements for liquidity risk identification, measurement, reporting and control within the Group. The set of Policies, Standards and supporting Guides communicate these baseline requirements to ensure consistent application throughout the Group.

- **Risk Methodologies**

The primary measure used to manage liquidity within the tolerance defined by the Board is the cashflow maturity mismatch analysis. The analysis is performed on a regular basis under normal and adverse scenarios, and assesses the adequacy of the counterbalancing capacity to fund or mitigate any cashflow shortfalls that may occur as forecasted in the cashflow movements across successive time bands. To ensure that liquidity is managed in line with the risk tolerance, core parameters underpinning the performance of the analysis, such as the types of scenarios, the survival period and the minimum level of liquid assets, are pre-specified for monitoring and control at the Group. Any occurrences of forecasted shortfalls that cannot be covered by the counterbalancing capacity would be escalated to the relevant committees for deliberation and actions.

Stress testing is performed under the cashflow maturity mismatch analysis, and covers adverse scenarios involving shocks that are general market and/or bank-specific in nature. Stress tests assess the bank's vulnerability when liability run-offs increase, asset drawdown and rollovers increase and / or liquid assets buffer reduces. In addition, ad-hoc stress tests are performed in the formulation of the Group's internal capital adequacy assessment process.

Liquidity risk control measures, such as liquidity-related ratios and balance sheet analysis, are complementary tools to the cashflow maturity mismatch analysis and are performed regularly to obtain deeper insights and finer control over the liquidity profile across the Group.

- **Processes, Systems and Reports**

Robust internal control processes and systems underlie the overall approach for identifying, measuring, aggregating, controlling and monitoring liquidity risk across the Group.

The day-to-day liquidity risk monitoring, control, reporting and analysis are managed by the RMG Market and Liquidity Risk unit – an independent risk management function that reports to the Senior Risk Executive.

Liquidity Risk Metrics

The table below analyses assets and liabilities of the Group as at 31 December based on the remaining period as at the end of the reporting period to the contractual maturity dates:

In HK$ millions	Repayable on demand	Less than 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
2015								
Assets								
– Cash and balances with central banks	**6,305**	**–**	**–**	**–**	**–**	**–**	**–**	**6,305**
– Government securities and treasury bills, classified as								
– Held-for-trading	**–**	**1**	**1,120**	**570**	**211**	**556**	**–**	**2,458**
– Available-for-sale	**–**	**2,686**	**4,977**	**1,655**	**4,765**	**481**	**–**	**14,564**
– Due from banks	**3,136**	**36,969**	**24,921**	**20,689**	**10,291**	**–**	**–**	**96,006**
– Bank and corporate securities								
– Debt securities classified as held-for-trading	**–**	**33**	**124**	**280**	**885**	**12**	**–**	**1,334**
– Debt securities classified as available-for-sale	**–**	**293**	**584**	**496**	**4,675**	**334**	**11**	**6,393**
– Debt securities classified as loans and receivables	**–**	**–**	**–**	**1,636**	**1,133**	**–**	**–**	**2,769**
– Equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**30**	**30**
– Loans and advances to customers	**9,904**	**28,637**	**27,426**	**25,595**	**30,865**	**36,060**	**1,721**	**160,208**
– Others	**–**	**7,893**	**1,684**	**201**	**83**	**12**	**7,872**	**17,745**
Total assets	**19,345**	**76,512**	**60,836**	**51,122**	**52,908**	**37,455**	**9,634**	**307,812**
Liabilities								
– Due to banks	**5,024**	**1,750**	**1,783**	**–**	**1,132**	**–**	**–**	**9,689**
– Deposits and balances from customers	**133,643**	**45,830**	**43,381**	**18,133**	**78**	**–**	**–**	**241,065**
– Certificates of deposit issued	**–**	**870**	**–**	**1,227**	**2,148**	**234**	**–**	**4,479**
– Subordinated liability	**–**	**–**	**–**	**–**	**4,185**	**–**	**–**	**4,185**
– Others	**482**	**12,020**	**668**	**669**	**122**	**9**	**1,009**	**14,979**
Total liabilities	**139,149**	**60,470**	**45,832**	**20,029**	**7,665**	**243**	**1,009**	**274,397**
Of which:								
Certificates of deposit held included in bank and corporate securities, classified as:								
– Held-for-trading	**–**	**3**	**3**	**–**	**–**	**–**	**–**	**6**

In HK$ millions	Repayable on demand	Less than 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
2014								
Assets								
– Cash and balances with central banks	1,969	–	–	–	–	–	–	1,969
– Government securities and treasury bills, classified as								
– Held-for-trading	–	985	1,375	1,475	331	30	–	4,196
– Available-for-sale	–	1,781	5,895	4,599	6,207	235	–	18,717
– Due from banks	4,234	27,696	36,456	9,844	1,248	–	–	79,478
– Bank and corporate securities								
– Debt securities classified as held-for-trading	–	560	71	208	1,499	–	–	2,338
– Debt securities classified as available-for-sale	–	175	247	398	6,388	419	16	7,643
– Debt securities classified as loans and receivables	–	–	–	118	1,762	–	–	1,880
– Equity securities	–	–	–	–	–	–	30	30
– Loans and advances to customers	9,234	34,931	33,692	35,455	30,551	39,629	1,077	184,569
– Others	39	5,745	1,961	60	145	6	4,664	12,620
Total assets	15,476	71,873	79,697	52,157	48,131	40,319	5,787	313,440
Liabilities								
– Due to banks	3,781	479	8	9	–	–	–	4,277
– Deposits and balances from customers	114,187	60,760	49,855	27,332	125	–	–	252,259
– Certificates of deposit issued	–	63	–	890	2,796	1,212	–	4,961
– Subordinated liability	–	–	–	–	–	4,189	–	4,189
– Others	322	7,348	3,809	1,600	123	15	1,706	14,923
Total liabilities	118,290	68,650	53,672	29,831	3,044	5,416	1,706	280,609
Of which:								
Certificates of deposit held included in bank and corporate securities, classified as:								
– Held-for-trading	–	535	24	123	6	–	–	688

The contractual undiscounted cash flow projections of the Group's financial liabilities, derivatives, contingent liabilities and commitments analysed by the remaining period as at 31 December to the contractual maturity dates are as follows:

In HK$ millions	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
2015*						
Financial liabilities						
– Due to banks	**5,024**	**3,550**	**28**	**1,283**	**–**	**9,885**
– Deposits and balances from customers	**133,643**	**89,457**	**18,292**	**79**	**–**	**241,471**
– Certificates of deposit issued	**–**	**898**	**1,314**	**2,254**	**225**	**4,691**
– Subordinated liability	**–**	**32**	**108**	**4,353**	**–**	**4,493**
– Others	**482**	**12,525**	**594**	**97**	**2**	**13,700**
	139,149	**106,462**	**20,336**	**8,066**	**227**	**274,240**
Derivatives settled on a gross basis						
– Foreign exchange contracts						
– inflow	**–**	**164,535**	**250,739**	**6,188**	**–**	**421,462**
– outflow	**–**	**164,885**	**250,492**	**6,137**	**–**	**421,514**
Contingent liabilities and commitments						
– Contingent liabilities	**–**	**9,368**	**–**	**–**	**–**	**9,368**
– Commitments	**76,010**	**76,996**	**–**	**–**	**–**	**153,006**
	76,010	**86,364**	**–**	**–**	**–**	**162,374**

In HK$ millions	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
2014*						
Financial liabilities						
– Due to banks	3,781	488	9	–	–	4,278
– Deposits and balances from customers	114,541	113,396	28,785	346	–	257,068
– Certificates of deposit issued	–	90	991	3,065	1,142	5,288
– Subordinated liability	–	29	95	742	4,821	5,687
– Others	322	8,809	1,807	1,037	177	12,152
	118,644	122,812	31,687	5,190	6,140	284,473
Derivatives settled on a gross basis						
– Foreign exchange contracts						
– inflow	–	119,967	158,770	66,079	–	344,816
– outflow	–	119,992	158,844	65,896	–	344,732
Contingent liabilities and commitments						
– Contingent liabilities	–	10,601	–	–	–	10,601
– Commitments	73,284	73,310	–	–	–	146,594
	73,284	83,911	–	–	–	157,195

* *The balances in the above table will not agree with the balances in the consolidated statement of financial position as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as future interest payments.*

For the purpose of risk management, the Group actively monitors and manages its liquidity profile based on the cashflow maturity mismatch analysis.

In forecasting the cashflows under the analysis, behavioural profiling is necessary in cases where a product has indeterminate maturity or the contractual maturity does not realistically reflect the expected cashflows. An example would be maturity-indeterminate savings and current account deposits which are generally viewed as a source of stable funding for commercial banks and consistently exhibited stability even under historical periods of stress.

A conservative view is therefore adopted in the Group's behavioural profiling of assets, liabilities and off-balance sheet commitments that have exhibited cashflow patterns that differ significantly from the contractual maturity profile shown under Note 38.

The table below shows the Group's behavioural net and cumulative maturity mismatch between assets and liabilities over a 1-year period under a normal scenario without incorporating growth projections. The Group's liquidity is observed to remain adequate under the maturity mismatch analysis, amidst sustained growth in loans supported by stable sources of funds from deposits gathering.

In HK$ millions (i)	**Less than 7 days**	**1 week to 1 month**	**1 to 3 months**	**3 to 12 months**
2015				
Net liquidity mismatch	**21,234**	**12,151**	**33,470**	**32,241**
Cumulative mismatch	**21,234**	**33,385**	**66,855**	**99,096**
2014(ii)				
Net liquidity mismatch	18,275	10,173	52,036	23,862
Cumulative mismatch	18,275	28,448	80,484	104,346

(i) Positive indicates a position of liquidity surplus. Negative indicates a liquidity shortfall that has to be funded.

(ii) As the behavioural assumptions used to determine the maturity mismatch between assets and liabilities are updated from time to time, the information presented above may not be directly comparable across past balance sheet dates.

(d) Operational risk

Operational Risk arises from inadequate or failed internal processes, people, or systems, or from external events. It includes legal risk, but excludes strategic or reputational risk. Operational risk is inherent in most of the Group's businesses and activities.

The Group's objective is to keep operational risk at appropriate levels, taking into account the markets the Bank operates in, the characteristics of the businesses as well as the competitive and regulatory environment the Group is subject to.

Operational Risk Management
The Group's approach for operational risk management comprises the following building blocks:

- **Policies**

To govern Operational Risk Management practices in a consistent manner, there is a Group Operational Risk Management Policy and a set of Core Operational Risk Standards which provides guidance on the baseline controls to ensure a controlled and sound operating environment. There are also corporate operational risk policies which are owned by the respective corporate oversight functions.

- **Risk Methodologies**

To manage and control operational risk, there are various tools including risk and control self-assessment, operational risk event management and key risk indicators monitoring. Risk and control self-assessment is used by each business or support unit to identify key operational risk and assess the degree of effectiveness of the internal controls. For those control issues identified, the units are responsible to develop action plans and track the timely resolution of these issues. Operational risk events are classified in accordance with Basel standards. Such events, including any significant incidents that may impact the Bank's reputation, are required to be reported based on certain established thresholds. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward looking manner.

- **Processes, systems and reports**

Robust internal control process and system are integral to identifying, monitoring, managing and reporting operational risk. The Bank has implemented a web-based system that supports multiple operational risk management processes and tools including operational risk event reporting, risk and control self-assessment, key risk indicators, tracking of issues or action plans and operational risk reporting.

Units are responsible for the day-to-day management of operational risk in their products, processes, systems and activities in accordance with the various policies. RMG Operational Risk and other control functions provide oversight and monitor the effectiveness of operational risk management, assess key operational risk issues with units to determine the impact across the Bank, and report and/or escalate key operational risks to relevant senior management and Board-level committees with recommendations on appropriate risk mitigation strategies.

(e) Capital management

The Group's capital management policies are to diversify its sources of capital, to allocate capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses and to meet the expectations of key constituencies, including investors and regulators.

The Banking Ordinance and the Banking (Capital) Rules set out the current requirements relating to the minimum capital adequacy ratios for an authorised institution incorporated in Hong Kong and the methodology for calculating these ratios.

The Bank is required to compute its capital adequacy ratios on a combined basis that includes the Bank and its overseas branch.

The Bank complied with the capital requirements imposed by the HKMA throughout 2015 and 2014.

39 MATERIAL RELATED PARTY TRANSACTIONS

(a) Holding companies and fellow subsidiaries

The Group's immediate holding company is DHB Limited and the ultimate holding company is DBS Group Holdings Ltd ("DBSH"). DBS Bank Ltd is an intermediate holding company of the Group.

As part of the Group's normal course of business, it enters into various transactions with holding companies and fellow subsidiaries on normal commercial terms. These transactions include interbank placements, taking of deposits, financial derivatives, contingent liabilities and commitments.

The Group has policies on credit processing for its affiliates, as well as transactions with its affiliates and related parties. Affiliate-related transactions must be conducted on an arm's length basis using credit standards, terms and conditions that are comparable to similar transactions with non-affiliates.

Information relating to income and expenses from these transactions during the year and balances outstanding as at 31 December are set out below:

(i) Income and expenses with holding companies and fellow subsidiaries

In HK$ millions	DBS Group Holdings Ltd 2015	DBS Group Holdings Ltd 2014	DBS Bank Ltd 2015	DBS Bank Ltd 2014	Fellow subsidiaries 2015	Fellow subsidiaries 2014
Interest income	**–**	–	**560**	449	**28**	4
Interest expense	**(119)**	(40)	**(32)**	(125)	**(3)**	(6)
Net fee and commission income / (expense)	**–**	–	**50**	9	**(10)**	(7)
Net trading loss	**–**	–	**(3,153)**	(1,598)	**–**	–
Other income	**–**	–	**36**	30	**6**	6
Total expenses recovered / (charged)	**–**	–	**10**	(16)	**80**	73

(ii) Balances with DBS Bank Ltd as at 31 December

In HK$ millions	2015	2014
Assets		
Due from banks	**84,411**	66,996
Derivatives	**1,434**	1,258
Other assets	**4,173**	751
	90,018	69,005
Liabilities		
Due to banks	**7,145**	1,839
Derivatives	**7,281**	4,206
Other liabilities	**84**	127
	14,510	6,172

(iii) Contract/notional amounts of financial derivatives with DBS Bank Ltd and fellow subsidiaries as at 31 December

In HK$ millions	2015	2014
Foreign exchange contracts	**421,171**	408,560
Interest rate contracts	**19,350**	22,111
Equity contracts	**295**	515
Commodity contracts	**97**	–
	440,913	431,186

(iv) Contingent liabilities and commitments with DBS Bank Ltd and fellow subsidiaries

As at 31 December 2015, total contingent liabilities and commitments with DBS Bank Ltd and fellow subsidiaries amounted to HK$ 2,041 million (2014: HK$1,207 million).

(v) Balances with immediate holding company and other intermediate holding companies as at 31 December

In HK$ millions	2015	2014
Deposits and balances from customers	**315**	315

(vi) Balances with DBS Group Holdings Ltd as at 31 December

In HK$ millions	2015	2014
Assets		
Other assets	**5**	–
Liabilities		
Subordinated liability	**4,185**	4,189
Other liabilities	**6**	6
	4,191	4,195

(vii) Balances with fellow subsidiaries as at 31 December

In HK$ millions	2015	2014
Due from banks	**289**	6
Loans and advances to customers	**929**	1,070
Bank and corporate securities	**1,312**	187
Other assets	**72**	168
	2,602	1,431
Due to banks	**130**	182
Deposits and balances from customers	**1,803**	2,810
Other liabilities	**72**	83
	2,005	3,075

(b) Directors and key management personnel

(i) Transactions and balances with directors and key management personnel

For the year ended 31 December 2015 and 2014, the Group has banking and non-banking transactions with directors of the Bank and DBSH Group and key management personnel of the Bank and their close family members. These transactions, including the taking of deposit and extension of credit card and other loan facilities, are made in the ordinary course of business and on commercial terms, and are not material.

(ii) Compensation of directors and key management personnel

In HK$ millions	2015	2014
Salaries, other short term employee benefits and directors' fee (Note)	**76**	76
Pension	**3**	3
Share-based compensation	**22**	20
	101	99

Note:

The Directors' fees are payable in 2016 to eligible persons who acted as Directors of DBS Bank (Hong Kong) Limited during the year ended 31 December 2015. Such fees are subject to the approval of the shareholders of DBS Bank (Hong Kong) Limited.

The amount included cash bonus accrued during the year, to be paid in the following year. Such cash bonus is subject to the approval of DBSH's Board of Directors.

40 LOAN TO DIRECTOR AND ENTITY CONNECTED WITH DIRECTOR

Loan to director of the Bank and entity connected with director disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

Loan made by the Bank

Name of borrower	Great Maker Limited
Relationship with the Bank	Connected entity of Mr. Ng Chee Siong, Robert, director of the Bank
Terms of the loan	
– Duration and repayment terms	Tenor of 4 years with bullet repayment
– Loan amount	HK$1,300 million
– Interest rate	1.52%
– Security	Properties
Outstanding loan balance	
– At 1 January 2014	–
– At 31 December 2014 and 1 January 2015	–
– At 31 December 2015	HK$760 million
Maximum balance outstanding	
– During 2014	–
– During 2015	HK$760 million

As at 31 December 2015, there was no impaired and overdue amount on the loan.

41 SHARE BASED COMPENSATION PLANS

The Group participated in various share-based compensation plans operated by the DBSH to foster a culture that aligns employees' interests with shareholders, enable employees to share in the bank's performance and enhance talent retention.

Main Scheme/ Plan	Note
DBSH Share Plan (Share Plan) • Share Plan is granted to Group executives as determined by the CMDC appointed to administer the Share Plan from time to time. • Participants are awarded DBSH shares, their equivalent cash value or a combination. • Awards consist of main award and retention award (20% of main awards). • Vesting of main award is staggered between 2 – 4 years after grant i.e. 33% will vest 2 years after grant. Another 33% will vest on the third year and the remainder 34% plus the retention awards will vest 4 years after grant. • The fair value of the shares awarded are computed based on the market price of the ordinary shares at the time of the award.	41(i)
DBSH Employee Share Plan (ESP) • ESP caters to employees not eligible to participate in the above listed Share Plan. Eligible employees are awarded DBSH ordinary shares, their equivalent cash value or a combination of both (at the discretion of the CMDC), when time-based conditions are met. • The awards structure and vesting conditions are similar to Share Plan • There are no additional retention awards for shares granted to top performers and key employees. • However, in specific cases where the award form part of an employee's annual performance remuneration, the retention award which constitutes 20% of the shares given in the main award will be granted. The shares in the retention award will vest 4 years after the date of grant.	41(i)
DBSH Share Option Plan (Option Plan) • The Option Plan expired on 19 June 2009. Any outstanding unexercised options as of 1 March 2015 had lapsed following the expiry of all options granted under the plan. • Option Plan is granted to eligible Group executives who holds the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent). • The exercise price is equal to the average of the last dealt prices for the DBSH shares as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Ltd, for the three consecutive trading days immediately preceding the date of the grant. • The options vest over a period in accordance to vesting schedule and are exercisable after the first anniversary of the date of the grant up to the date of expiration of the options. • The fair value of options granted is determined using the Binomial model.	41(ii)

(i) DBSH Share Plan and DBSH Employee Share Plan

The following table sets out the outstanding awards at the end of each reporting period and the movement during the year:

	2015		2014	
Number of shares	**Share Plan**	**ESP**	**Share Plan**	**ESP**
Balance at 1 January	**1,232,295**	**409,252**	1,085,568	383,637
Granted	**514,704**	**191,621**	454,304	177,700
Transfer	**2,403**	**133**	3,095	3,910
Vested	**(335,039)**	**(119,225)**	(283,399)	(115,062)
Forfeited	**(50,015)**	**(45,116)**	(27,273)	(40,933)
Balance at 31 December	**1,364,348**	**436,665**	1,232,295	409,252
Weighted average fair value of the shares granted during the year	**SG$19.47**	**SG$19.51**	SG$16.66	SG$16.65

Since the inception of the Share Plan and ESP, no awards have been cash-settled.

(ii) DBSH Share Option Plan

The following table sets out the movements of the unissued ordinary shares under outstanding options issued and additional information on these options.

	2015		2014	
	Unissued number of ordinary shares under outstanding options	**Weighted average exercise price SG$**	**Unissued number of ordinary shares under outstanding options**	**Weighted average exercise price SG$**
Balance as at 1 January	**35,611**	**12.81**	219,087	12.59
Movements during the year:				
– Exercised	**(33,377)**	**12.81**	(160,506)	12.55
– Transfer	**–**	**–**	(2,823)	12.81
– Forfeited / Expired	**(2,234)**	**12.81**	(20,147)	12.57
Balance as at 31 December	**–**	**–**	35,611	12.81
Additional information:				
Weighted average remaining contractual life of options outstanding as at 31 December	**not applicable**		0.16 years	
Range of exercise price of options outstanding as at 31 December	**not applicable**		SG$12.81	

In 2015, 33,377 options (2014: 160,506) were exercised at their contractual exercise prices. During the year, the corresponding weighted average market price of DBSH shares was SG$19.77 (2014: SG$16.53).

DBSH options	**Number of unissued ordinary shares 1 January 2015**	**During the year Transfer**	**During the year Exercised**	**Forfeited/ Expired**	**Number of unissued ordinary shares 31 December 2015**	**Exercise price per share SGD**	**Expiry date**
March 2005	**35,611**	**–**	**33,377**	**2,234**	**–**	**12.81**	**01 Mar 2015**

42 BANK LEVEL STATEMENT OF FINANCIAL POSITION

In HK$ millions	Note	2015	2014
Assets			
Cash and balances with central banks		**6,305**	1,969
Government securities and treasury bills		**17,022**	22,913
Due from banks		**96,006**	79,478
Derivatives		**7,363**	5,094
Bank and corporate securities		**10,526**	11,891
Loans and advances to customers		**160,208**	184,569
Other assets		**7,712**	4,641
Subsidiaries		**53**	615
Properties and other fixed assets		**2,483**	2,684
Total assets		**307,678**	313,854
Liabilities			
Due to banks		**9,689**	4,277
Deposits and balances from customers		**241,065**	252,259
Derivatives		**7,626**	5,216
Certificates of deposit issued		**4,479**	4,961
Other liabilities		**7,353**	9,704
Amounts due to subsidiaries		**80**	874
Subordinated liability		**4,185**	4,189
Total liabilities		**274,477**	281,480
Equity			
Share capital		**7,595**	7,595
Reserves	30	**25,606**	24,779
Total equity		**33,201**	32,374
Total liabilities and equity		**307,678**	313,854

Dominic Chiu Fai Ho
Director

Piyush Gupta
Director

J.E. Sebastian Paredes Muirragui
Director

Kwok Kwok Chuen
Director

DBS Bank (Hong Kong) Limited and its Subsidiaries

UNAUDITED SUPPLEMENTARY INFORMATION

for the year ended 31 December 2015

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

1 CAPITAL ADEQUACY

The capital adequacy ratios as at 31 December 2015 and 31 December 2014 were compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority.

	As at 31 December 2015	As at 31 December 2014
Capital Adequacy Ratios		
Common Equity Tier 1	**14.9%**	14.6%
Tier 1	**14.9%**	14.6%
Total	**17.0%**	16.7%

The Bank uses the Internal Ratings-Based ("IRB") approach for the calculation of the risk-weighted assets for the majority of its credit risk exposures and the Standardised approach for those exempted from the IRB approach. The Bank uses the Standardised approaches for the calculation of risk-weighted assets for market risk and operational risk.

Capital disclosures as required by section 45 of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website www.dbs.com.hk.

2 LEVERAGE RATIO

The leverage ratio as at 31 December 2015 and 31 December 2014 were compiled in accordance with the leverage ratio Framework issued by the HKMA.

	As at 31 December 2015	As at 31 December 2014
Leverage ratio	**9.5%**	9.0%

Leverage ratio disclosures as required by section 45A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website www.dbs.com.hk.

3 FINANCIAL STATEMENTS AND REGULATORY SCOPE OF CONSOLIDATION

For regulatory reporting purposes, the Bank is required to compute its capital adequacy ratios and leverage ratio on a combined basis that includes the Bank and its overseas branch, while the preparation of its financial statements is based on consolidation basis that also includes its subsidiaries.

The following entities are within the Group's accounting scope of consolidation but are excluded from its regulatory scope of consolidation.

Name of entity	Principal activities	Total Assets HK$'M	Total Equity HK$'M
Dao Heng Finance Limited	Inactive	59	59
Hang Lung Bank (Nominee) Limited	Provision of nominee services	–	–
DBS Kwong On (Nominees) Limited	Provision of nominee services	–	–
Overseas Trust Bank Nominees Limited	Provision of nominee services	–	–
Ting Hong Nominees Limited	Provision of nominee, trustee and agency services	–	–
DBS Trustee (Hong Kong) Limited	Inactive	5	5
DBS Trustee H.K.(New Zealand) Limited	Provision of trustee and trust administration services	1	1
DBS COMPASS Limited	Inactive	8	8

4 CAPITAL REQUIREMENTS FOR DIFFERENT TYPES OF RISK

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

In HK$ millions	2015	2014
Credit risk:		
IRB approach		
Retail exposures:		
Residential mortgages	**277**	256
Qualifying revolving retail exposures	**1,450**	1,429
Small business retail exposures	**–**	–
Other retail exposures to individuals	**982**	897
Wholesale exposures:		
Sovereign exposures	**198**	200
Bank exposures	**2,559**	2,665
Corporate exposures	**7,946**	7,617
Other exposures	**356**	382
	13,768	13,446
Standardised approach		
On-balance sheet		
Public sector entity exposures	**5**	6
Bank exposures	**4**	3
Corporate exposures	**726**	680
Regulatory retail exposures	**68**	59
Other exposures which are not past due exposures	**421**	527
Past due exposures	**36**	39
Off-balance sheet		
Off-balance sheet exposures other than over-the-counter derivative transactions	**40**	47
Over-the-counter derivative transactions	**9**	16
	1,309	1,377
Credit valuation adjustment	**325**	367
Total capital requirements for credit risk	**15,402**	15,190
Market risk:		
Standardised approach		
Interest rate exposures	**132**	267
Foreign exchange exposures	**38**	114
Total capital requirements for market risk	**170**	381
Total capital requirements for operational risk	**1,155**	1,069
Total capital requirements before deductions	**16,727**	16,640
Deductions	**(21)**	(31)
Total capital requirements after deductions	**16,706**	16,609

5 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 DBSH to ensure they are fit for purpose. The models are placed through a rigorous review process prior to endorsement by Hong Kong Credit Risk Committee of the Bank and Group Credit Risk Model Committee of DBSH. The models have also been approved by Risk Executive Committee and Board Risk Management Committee of the Bank and Risk Executive Committee and 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, risk rating migration and to facilitate the calculation for risk based pricing.

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.

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, corporate small business, 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 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 that includes assessment of a model's discriminatory power, calibration, ratings stability and model design. 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.

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 benchmark.

DBS Probability of Default (PD) Grade (ACRR)	Description of Risk Ratings	Internal 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	AAA
2	Taking into account the impact of the relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is excellent	Excellent	AA+, AA, AA-
3	More susceptible to adverse economic, social, geopolitical conditions and other circumstances, capacity to meet its financial commitment is strong	Strong	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	BBB+/BBB
5	Relatively worse off than an obligor rated "4B" but exhibits adequate protection parameters	Satisfactory	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	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	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	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	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	CCC – C
10 and Above	An obligor rated "10" and above is in default (as defined under Basel Capital Accord)	Default	D

(b) Summary of credit exposures by IRB calculation approach

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

In HK$ millions	2015	2014
Retail exposures:		
Retail IRB approach		
Residential mortgages	**26,632**	29,968
Qualifying revolving retail exposures	**57,728**	55,193
Small business retail exposures	**15**	25
Other retail exposures to individuals	**9,900**	9,461
Wholesale exposures:		
Foundation IRB approach		
Sovereign exposures	**23,691**	24,209
Bank exposures	**125,214**	119,587
Corporate exposures	**80,449**	84,718
Supervisory slotting criteria approach		
Specialised lending	**8,507**	10,312
Other exposures:		
Specific risk-weight approach	**5,065**	5,699
	337,201	339,172

(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 Capital Accord principles.

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

Residential mortgages

In HK$ millions EL% range	2015 Exposure amount	2014 Exposure amount
Up to 0.10%	**26,144**	29,422
> 0.10% to 0.50%	**–**	–
> 0.50%	**472**	531
Default	**16**	15
	26,632	29,968

Qualifying revolving retail exposures

In HK$ millions EL% range	2015 Exposure amount	2014 Exposure amount
Up to 5%	**55,651**	52,895
> 5%	**2,023**	2,246
Default	**54**	52
	57,728	55,193

Small business retail exposures

In HK$ millions EL% range	2015 Exposure amount	2014 Exposure amount
Up to 0.3%	**15**	25
	15	25

Other retail exposures to individuals

In HK$ millions EL% range	2015 Exposure amount	2014 Exposure amount
Up to 0.3%	**4,578**	4,573
> 0.3%	**5,271**	4,844
Default	**51**	44
	9,900	9,461

(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.

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 rating process include the obligor's financial standing and non-financial factors such as management quality, industry outlook and market position. 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 validated quantitative tool. This is supplemented by qualitative factors such as facility utilisation.

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.

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

Sovereign exposures

Credit Risk Rating	**PD range (%)**	**Exposure amount HK$'M**	**Exposure-weighted average risk-weight (%)**
2015			
1–3	**0.00 – 0.10**	**23,691**	**10**

Credit Risk Rating	PD range (%)	Exposure amount HK$'M	Exposure-weighted average risk-weight (%)
2014			
1-3	0.00 – 0.10	24,209	10

Bank exposures

Credit Risk Rating	**PD range (%)**	**Exposure amount HK$'M**	**Exposure-weighted average risk-weight (%)**
2015			
1-3	**0.03 – 0.10**	**119,533**	**23**
4A/4B	**0.10 – 0.33**	**2,236**	**68**
5	**0.33 – 0.47**	**1,029**	**75**
6A/6B	**0.47 – 1.11**	**1,960**	**104**
7A-9	**1.11 – 99.99**	**456**	**137**
Total		**125,214**	

Credit Risk Rating	PD range (%)	Exposure amount HK$'M	Exposure-weighted average risk-weight (%)
2014			
1-3	0.03 – 0.10	107,522	23
4A/4B	0.10 – 0.33	8,084	63
5	0.33 – 0.47	2,340	72
6A/6B	0.47 – 1.11	877	98
7A-9	1.11 – 99.99	764	134
Total		119,587	

Corporate exposures

Credit Risk Rating	**PD range (%)**	**Exposure amount HK$'M**	**Exposure-weighted average risk-weight (%)**
2015			
1-3	**0.03 – 0.10**	**2,198**	**19**
4A/4B	**0.10 – 0.33**	**2,744**	**47**
5	**0.33 – 0.47**	**2,463**	**64**
6A/6B	**0.47 – 1.11**	**7,863**	**79**
7A-9	**1.11 – 99.99**	**62,184**	**113**
10A-11	**100**	**2,997**	**371**
Total		**80,449**	

Credit Risk Rating	PD range (%)	Exposure amount HK$'M	Exposure-weighted average risk-weight (%)
2014			
1-3	0.03 – 0.10	2,982	19
4A/4B	0.10 – 0.33	2,049	52
5	0.33 – 0.47	2,028	61
6A/6B	0.47 – 1.11	13,639	82
7A-9	1.11 – 99.99	62,991	111
10A-11	100	1,029	188
Total		84,718	

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.

Obligor grade	**Exposure amount HK$'M**	**Exposure-weighted average risk-weight (%)**
2015		
Strong	**1,036**	**63**
Good	**4,789**	**90**
Satisfactory	**2,607**	**122**
Weak	**75**	**265**
Total	**8,507**	

Obligor grade	Exposure amount HK$'M	Exposure-weighted average risk-weight (%)
2014		
Strong	2,240	68
Good	6,483	87
Satisfactory	1,588	122
Weak	1	265
Total	10,312	

(e) Policies for establishing provisions

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

(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.

In HK$ millions **Exposure classes**	**Actual loss for the year ended 31 December 2015**	**Expected loss as at 31 December 2014**
Residential mortgages	**–**	**23**
Qualifying revolving retail exposures	**133**	**566**
Small business retail exposures	**–**	**–**
Other retail exposures to individuals	**91**	**738**
Sovereign exposures	**–**	**39**
Bank exposures	**–**	**39**
Corporate exposures	**407**	**939**
	631	**2,344**

In HK$ millions Exposure classes	Actual loss for the year ended 31 December 2014	Expected loss as at 31 December 2013
Residential mortgages	–	34
Qualifying revolving retail exposures	126	562
Small business retail exposures	–	–
Other retail exposures to individuals	72	432
Sovereign exposures	–	37
Bank exposures	–	53
Corporate exposures	116	911
	314	2,029

Comparison of actual default rate against estimated probability of default

% Exposure classes	Actual percentage of default for the year ended 31 December 2015	Estimated 1-year probability of default as at 31 December 2014
Residential mortgages	**0.07**	**0.53**
Qualifying revolving retail exposures	**0.40**	**1.08**
Small business retail exposures	**–**	**0.35**
Other retail exposures to individuals	**3.52**	**10.71**
Sovereign exposures	**–**	**0.02**
Bank exposures	**–**	**0.49**
Corporate exposures	**1.95**	**3.55**

% Exposure classes	Actual percentage of default for the year ended 31 December 2014	Estimated 1-year probability of default as at 31 December 2013
Residential mortgages	0.08	0.63
Qualifying revolving retail exposures	0.47	1.08
Small business retail exposures	–	0.34
Other retail exposures to individuals	3.21	6.76
Sovereign exposures	–	0.03
Bank exposures	–	0.48
Corporate exposures	1.16	3.13

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 2015 and 2014.

Expected loss is a 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 2015 and 2014 respectively. The two measures of losses are therefore not directly comparable.

6 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:

In HK$ millions	Exposure amount	Exposure amount after credit risk mitigation	Risk-weighted amount after credit risk mitigation
2015			
On-balance sheet			
Sovereign exposures	**–**	**–**	**–**
Public sector entity exposures	**–**	**283**	**56**
Bank exposures	**46**	**46**	**46**
Corporate exposures	**9,807**	**9,080**	**9,080**
Regulatory retail exposures	**1,878**	**1,131**	**848**
Other exposures which are not past due exposures	**8,571**	**5,189**	**5,258**
Past due exposures	**310**	**310**	**446**
	20,612	**16,039**	**15,734**
Off-balance sheet			
Off-balance sheet exposures other than over-the-counter derivative transactions	**648**	**504**	**504**
Over-the-counter derivative transactions	**189**	**117**	**117**
	837	**621**	**621**

In HK$ millions	Exposure amount	Exposure amount after credit risk mitigation	Risk-weighted amount after credit risk mitigation
2014			
On-balance sheet			
Sovereign exposures	–	5	–
Public sector entity exposures	–	379	76
Bank exposures	38	38	38
Corporate exposures	11,147	8,502	8,502
Regulatory retail exposures	1,544	984	739
Other exposures which are not past due exposures	10,247	5,683	6,593
Past due exposures	329	329	486
	23,305	15,920	16,434
Off-balance sheet			
Off-balance sheet exposures other than over-the-counter derivative transactions	677	584	584
Over-the-counter derivative transactions	336	197	197
	1,013	781	781

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.

7 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 38 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 2015 and 31 December 2014, the credit and market risks concentrations within the credit risk mitigation used by the Bank are under a minimal level.

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

In HK$ millions	**Exposure amount covered by recognised collateral**	**Exposure amount covered by recognised guarantee**
2015		
Foundation IRB approach		
Corporate exposures	**33,303**	**9,956**
Bank exposures	**13**	**–**
	33,316	**9,956**
Standardised approach		
Corporate exposures	**726**	**–**
Regulatory retail exposures	**748**	**–**
Other exposures which are not past due exposures	**3,099**	**283**
Past due exposures	**32**	**2**
Off-balance sheet exposures other than over-the-counter derivative transactions	**144**	**–**
Over-the-counter derivative transactions	**72**	**–**
	4,821	**285**
Total	**38,137**	**10,241**

In HK$ millions	Exposure amount covered by recognised collateral	Exposure amount covered by recognised guarantee
2014		
Foundation IRB approach		
Corporate exposures	32,297	14,279
Bank exposures	10	–
	32,307	14,279
Standardised approach		
Corporate exposures	2,640	5
Regulatory retail exposures	559	–
Other exposures which are not past due exposures	4,186	379
Past due exposures	3	4
Off-balance sheet exposures other than over-the-counter derivative transactions	93	–
Over-the-counter derivative transactions	139	–
	7,620	388
Total	39,927	14,667

8 COUNTERPARTY CREDIT RISK-RELATED EXPOSURES

The analysis of the default risk exposures 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:

In HK$ millions	2015	2014
Counterparty credit risk exposures under IRB approach		
Default risk exposures		
(a) Derivative contracts		
– Positive fair values	**7,373**	4,995
– Potential future exposures	**6,693**	10,586
	14,066	15,581
Of which:		
– Bank exposures	**5,310**	6,019
– Corporate exposures	**8,756**	9,562
	14,066	15,581
Less : Effects of netting arrangement	**(3,639)**	(3,976)
Default risk exposures after netting	**10,427**	11,605
Less: Collateral amount		
– Recognised financial collateral	**(550)**	(457)
– Other eligible collateral	**(1,220)**	(1,382)
	8,657	9,766
Risk–weighted amounts		
(a) Derivative contracts		
– Bank exposures	**355**	435
– Corporate exposures	**10,281**	10,729
	10,636	11,164

In HK$ millions	2015	2014
Counterparty credit risk exposures under Standardised approach		
Default risk exposures		
(a) Derivative contracts		
– Positive fair values	**84**	211
– Potential future exposures	**105**	125
	189	336
Of which:		
– Corporate exposures	**124**	226
– Regulatory retail exposures	**2**	–
– Other exposures which are not past due exposures	**63**	110
	189	336
Less: Recognised financial collateral	**(72)**	(139)
	117	197
Risk-weighted amounts		
(a) Derivative contracts		
– Corporate exposures	**113**	194
– Regulatory retail exposures	**2**	–
– Other exposures which are not past due exposures	**2**	3
	117	197

There is no outstanding credit derivative contract and securities financing transaction which creates exposures to counterparty credit risk as at 31 December 2015 (2014: Nil).

The current exposure method is used for calculating the Bank's default risk exposures and risk-weighted amount of derivative contracts, using the mark-to-market exposures with appropriate add-on factors for potential future exposures.

If there is a 2-notch downgrade in the Bank's credit ratings, the impact on the Bank's collateral obligations under derivative contracts is minimal.

9 SEGMENTAL INFORMATION

(a) Segmental information by class of business

In HK$ millions 2015	Commercial and consumer banking	Treasury	Others	Total
Total income	**7,934**	**356**	**429**	**8,719**
Profit before allowances for credit losses	**3,634**	**226**	**356**	**4,216**
Profit before income tax	**3,082**	**226**	**356**	**3,664**
Operating assets	**159,854**	**138,392**	**9,566**	**307,812**
2014				
Total income	7,574	345	126	8,045
Profit before allowances for credit and other losses	3,679	216	107	4,002
Profit before income tax	3,162	216	274	3,652
Operating assets	185,388	120,930	7,122	313,440

Commercial and consumer 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 Group.

(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) International claims

Analysis of international claims by location and type of counterparty is as follows:

			Non-bank private sector		
In HK$ millions	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
2015					
Developed countries	**7,830**	**5,222**	**116**	**2,740**	**15,908**
Offshore centres, of which	**89,094**	**1,618**	**943**	**29,631**	**121,286**
– Singapore	**88,407**	**1,613**	**54**	**1,486**	**91,560**
– Hong Kong	**677**	**5**	**328**	**25,824**	**26,834**
– Others	**10**	**–**	**561**	**2,321**	**2,892**
Developing Europe	**1**	**–**	**–**	**231**	**232**
Developing Latin America and Caribbean	**32**	**–**	**–**	**608**	**640**
Developing Africa and Middle East	**34**	**–**	**13**	**113**	**160**
Developing Asia-Pacific, of which	**22,133**	**233**	**839**	**5,616**	**28,821**
– China	**21,740**	**233**	**754**	**4,886**	**27,613**
– Others	**393**	**–**	**85**	**730**	**1,208**
International organisations	**–**	**1,345**	**–**	**–**	**1,345**
	119,124	**8,418**	**1,911**	**38,939**	**168,392**
2014					
Developed countries	5,934	8,213	30	2,431	16,608
Offshore centres, of which	89,196	1,783	287	19,309	110,575
– Singapore	88,471	1,776	–	723	90,970
– Hong Kong	606	7	246	12,668	13,527
– Others	119	–	41	5,918	6,078
Developing Europe	1	–	–	196	197
Developing Latin America and Caribbean	6	–	–	527	533
Developing Africa and Middle East	35	–	–	2	37
Developing Asia-Pacific, of which	33,649	647	23	2,763	37,082
– China	33,186	647	23	1,932	35,788
– Others	463	–	–	831	1,294
International organisations	–	2,279	–	–	2,279
	128,821	12,922	340	25,228	167,311

The above analysis is disclosed on a net basis after taking into account the effect of any recognised risk transfer.

10 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers by loan usage

In HK$ millions	2015 Outstanding balance	2015 Balance covered by collateral	2014 Outstanding balance	2014 Balance covered by collateral
Gross loans and advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**2,566**	**2,308**	2,228	2,226
– Property investment	**23,288**	**22,636**	24,828	23,846
– Financial concerns	**2,621**	**2,317**	3,815	3,518
– Stockbrokers	**962**	**33**	1,144	64
– Wholesale and retail trade	**15,578**	**11,939**	19,111	15,497
– Manufacturing	**9,378**	**6,497**	11,444	8,284
– Transport and transport equipment	**10,487**	**9,847**	10,005	9,547
– Recreational activities	**105**	**92**	161	154
– Information technology	**369**	**148**	317	110
– Others	**6,254**	**4,547**	7,263	5,896
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	**294**	**294**	390	390
– Loans for the purchase of other residential properties	**23,712**	**23,712**	26,489	26,489
– Credit card advances	**9,041**	**–**	8,549	–
– Others	**13,443**	**6,520**	13,277	6,918
	118,098	**90,890**	129,021	102,939
Trade finance (including trade bills)	**37,547**	**13,691**	50,179	14,064
Gross loans and advances for use outside Hong Kong	**5,913**	**2,726**	6,768	2,714
	161,558	**107,307**	185,968	119,717

(b) Overdue loans and advances to customers

The overdue loans and advances are analysed as follows:

	2015 HK$'M	2015 % of gross loans and advances to customers	2014 HK$'M	2014 % of gross loans and advances to customers
Six months or less but over three months	**436**	**0.27**	267	0.14
One year or less but over six months	**326**	**0.20**	289	0.16
Over one year	**731**	**0.45**	696	0.37
	1,493	**0.92**	1,252	0.67
Individual impairment allowances made in respect of the above overdue loans and advances	**446**		534	
Current market value of collateral held against the covered portion of the above overdue loans and advances	**1,448**		986	
Covered portion of the above overdue loans and advances	**924**		594	
Uncovered portion of the above overdue loans and advances	**569**		658	

(c) *Rescheduled loans and advances to customers*

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

	2015		2014	
	HK$'M	% of gross loans and advances to customers	HK$'M	% of gross loans and advances to customers
Rescheduled loans and advances	**409**	**0.25**	258	0.14

(d) *Repossessed assets*

As at 31 December 2015, repossessed assets of the Bank amounted to HK$128 million (2014: HK$49 million).

(e) *Mainland activities*

The table below summarises the non-bank Mainland China exposure of the Bank (excluding its Macau Branch), categorised by types of counterparties:

In HK$ millions

Types of Counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total
2015			
(a) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**951**	**297**	**1,248**
(b) Local governments, local government-owned entities and their subsidiaries and JVs	**305**	**2**	**307**
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**2,790**	**1,126**	**3,916**
(d) Other entities of central government not reported in part (a) above	**267**	**–**	**267**
(e) Other entities of local governments not reported in part (b) above	**296**	**122**	**418**
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**4,255**	**1,057**	**5,312**
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**4,442**	**2,096**	**6,538**
Total	**13,306**	**4,700**	**18,006**
Total assets after provision	**305,793**		
On-balance sheet exposures as percentage of total assets	**4.35%**		

In HK$ millions

Types of Counterparties	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Total**
2014			
(a) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	1,566	27	1,593
(b) Local governments, local government-owned entities and their subsidiaries and JVs	878	46	924
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	4,685	1,016	5,701
(d) Other entities of central government not reported in part (a) above	902	73	975
(e) Other entities of local governments not reported in part (b) above	466	128	594
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	5,384	1,540	6,924
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,277	66	1,343
Total	15,158	2,896	18,054
Total assets after provision	311,354		
On-balance sheet exposures as percentage of total assets	4.87%		

Certain comparative figures have been re-presented to conform to current year presentation.

11 CURRENCY CONCENTRATION

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

In HK$ millions	USD	CNY	Others	Total
2015				
Hong Kong dollar equivalents				
Spot assets	**116,202**	**14,937**	**11,930**	**143,069**
Spot liabilities	**(83,793)**	**(20,099)**	**(19,013)**	**(122,905)**
Forward purchases	**219,936**	**214,013**	**13,096**	**447,045**
Forward sales	**(252,059)**	**(208,480)**	**(5,996)**	**(466,535)**
Net options position	**(1)**	**(10)**	**6**	**(5)**
Net long non-structural position	**285**	**361**	**23**	**669**
Net structural position	**–**	**29**	**(30)**	**(1)**
2014				
Hong Kong dollar equivalents				
Spot assets	108,171	29,193	13,809	151,173
Spot liabilities	(78,794)	(27,292)	(20,504)	(126,590)
Forward purchases	178,331	174,790	13,121	366,242
Forward sales	(208,836)	(175,493)	(6,287)	(390,616)
Net options position	(10)	(68)	45	(33)
Net (short)/long non-structural position	(1,138)	1,130	184	176
Net structural position	–	29	(59)	(30)

Structural foreign exchange positions arising from capital investments outside Hong Kong, mainly in Chinese Renminbi and Macau Pataca.

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.

12 LIQUIDITY COVERAGE RATIO

The Bank complies with the minimum requirement of 60% of Liquidity Coverage Ratio ("LCR") on a daily basis from 1 January 2015 onwards, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	For the quarters ended			
	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 Mar 2015
Average LCR	**130.8%**	**132.4%**	**138.5%**	**137.2%**

Liquidity disclosures as required by section 51 and 51A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website www.dbs.com.hk.

DBS Bank (Hong Kong) Limited and its Subsidiaries

CORPORATE GOVERNANCE REPORT

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

1 BOARD AND BOARD COMMITTEES

DBS Bank (Hong Kong) Limited (the "Bank") is fully committed to effective corporate governance in order to ensure its proper functioning and protect the interests of all the Bank's stakeholders. The Bank is subject to, and during the year has complied, in all material aspects, with the guidelines set out in the Hong Kong Monetary Authority Supervisory Policy Manual CG-1 Corporate Governance of Locally Incorporated Authorized Institutions issued on 3 August 2012.

The Board of Directors of the Bank (the "Board") directs the Bank in the conduct of its affairs and ensures that corporate responsibility and ethical standards underpin the conduct of the Bank's business. The Board provides sound leadership to the Chief Executive Officer (the "CEO") and Management in setting the strategic vision, direction and long-term goals of the Bank as well as ensuring that adequate resources are available to meet these objectives. The Board bears the ultimate responsibility for the Bank's governance, strategy, risk management, financial performance and key personnel decisions.

To discharge its stewardship and responsibilities in specific areas, the Board may delegate authority to specialized Board committees to more efficiently and effectively contribute to the strategic and operational development of the Bank. The composition, roles and functions of the Board committees of the Bank are set out below.

(a) Board Audit Committee

The Board Audit Committee (the "BAC") comprises four non-executive directors. A majority (three out of the four) of the directors in the BAC, including its Chairman, are independent non-executive directors of the Bank. All members of the BAC are highly experienced in financial and internal control management; most with expertise in audit practices, financial reporting and accounting.

The key responsibilities of the BAC include:

- monitoring the financial reporting process;
- reviewing the Bank's financial statements prior to submission to the Board for approval;
- overseeing and interacting with the internal and external auditors;
- making recommendations to the Board on the proposals to shareholders on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- approving the appointment, removal and remuneration of the Head of Internal Audit;
- reviewing the adequacy and effectiveness of the internal audit function and processes;
- reviewing the independence and objectivity of the external auditor;
- reviewing the internal and external auditor's audit plans and audit reports;
- ensuring that any observations of internal or external auditors regarding internal control weaknesses or deficiencies are promptly communicated to the BAC and rectified by Management of the Bank; and
- reviewing the adequacy and effectiveness of the Bank's internal controls, such as financial, operational, compliance and information technology controls, as well as accounting policies and systems.

(b) Board Risk Management Committee

The Board Risk Management Committee (the "BRMC") comprises five directors. A majority (four out of five) of the directors, including its Chairman, are non-executive directors. The BRMC members are appropriately qualified to discharge their responsibilities with extensive experience in risk management issues and practices.

The BRMC has oversight of the Bank's risk appetite, risk governance, risk frameworks and risk management practices and policies to ensure that all risks are effectively managed. In particular, the principal duties of the BRMC include:

- reviewing and recommending risk strategies and risk appetite to the Board on an aggregate basis as well as on specific risks relevant to the Bank, such as credit, market, liquidity, operational and reputational risks;
- approving the Bank's overall and specific risk governance frameworks, risk authority limits and major risk policies;
- monitoring risk exposures and profile against risk limits and risk strategy in accordance with approved risk appetite and/or guidelines;
- monitoring the quarterly portfolio reviews of total exposures as well as large exposures and asset quality;

- discussing large risk events and subsequent remedial action plans;
- monitoring market developments, such as macro-economic, credit, industry, country risk and stress tests related to these developments;
- overseeing the independence and adequacy of the risk management function;
- reviewing the plans to meet the Basel Capital Accord requirements; and
- overseeing the Internal Capital Adequacy Assessment Process, including approving stress scenarios and commensurate results for capital, risk-weighted assets, profit and loss and liquidity.

The BRMC supervises the Bank's risk management in accordance with the overall risk appetite established by the Board. This risk appetite framework guides Management in the pursuit of the Bank's strategy and business plans and is encapsulated in a formal risk appetite statement which considers capital adequacy, earnings volatility and the various risk types including but not limited to credit risk, country risk, market risk, liquidity risk, operational risk and reputational risk. Risk appetite takes into account potential impact arising from stressed conditions and concentration risk. Portfolio risk limits for the quantifiable risk types are established through a top-down approach and operationalised through a formal framework. Other significant risk aspects are guided by qualitative expression of principles. The risk appetite framework is reviewed annually.

(c) Nomination Committee

The Bank relies on the Nominating Committee of DBS Group Holdings Ltd ("DBSH") to perform the nomination committee functions on behalf of the Bank. A majority (four out of five) of the members of the Nominating Committee are independent non-executive directors of DBSH. Please refer to the Corporate Governance Report in the Annual Report of DBSH for details on the functions of the DBSH Nominating Committee.

(d) Compensation and Management Development Committee

The Bank relies on the Compensation and Management Development Committee ("CMDC") of DBSH to perform the remuneration committee functions on behalf of the Bank. All CMDC members are independent directors of DBSH. Please refer to the Corporate Governance Report in the Annual Report of DBSH for details on the functions of the DBSH CMDC.

2. SENIOR MANAGEMENT AND MANAGEMENT COMMITTEES

Senior Management of the Bank consists of a group of highly competent and experienced individuals responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank in accordance with the business strategy, risk appetite and policies approved by the Board. Specialised Management committees are established to oversee and implement business strategies, risk management systems and internal controls. The roles, functions and composition of each of the Management committees are set out below.

(a) Hong Kong Management Committee

The Hong Kong Management Committee (the "HKMC") is responsible for formulating and implementing DBS Group's strategy for Hong Kong, as well as the financial and non-financial results of DBS Group's activities in this geographic segment. It provides leadership to the various business and support units in Hong Kong with a view to ensure sound and effective governance while achieving the targeted financial returns. Towards this end, the HKMC prioritises business development initiatives and support infrastructure projects necessary to underpin robust growth and allocates capital within the context of DBSG Group's strategy. The HKMC is also responsible for ensuring that policies and practices are in place to maintain high standards of corporate governance, risk management and compliance in Hong Kong. Chaired by the CEO of the Bank, the HKMC comprises senior management staff in Hong Kong.

(b) Hong Kong Risk Executive Committee

The Hong Kong Risk Executive Committee provides oversight of all risk types (including those without an underlying risk committee oversight), interactions between risk types and cross-risk stress testing for major downside risk. It reviews, from a risk perspective, existing and new business mandates and establishes overall local risk architecture direction and priorities in line with those established by DBS Group. The Hong Kong Risk Executive Committee comprises the CEO of the Bank, the Senior Risk Executive of Hong Kong and representatives from key business units and support units.

(c) Hong Kong Asset and Liability Committee

The Hong Kong Asset and Liability Committee oversees strategies to enhance the quality of net interest income, liquidity management and structural foreign exchange management for Hong Kong. The Hong Kong Asset and Liability Committee also reviews the Bank's capital position and adequacy; assesses capital deployment, and approves risk capital quantification methodologies. The Hong Kong Asset and Liability Committee comprises the CEO of the Bank and representatives from the relevant business units and support units.

(d) Hong Kong Credit Risk Committee

The Hong Kong Credit Risk Committee serves as an executive forum for discussion and decisions pertaining to credit risk and its management. It assesses credit risk taking, and reviews and monitors credit risk portfolio, special loan and asset review situations, credit systems, specific credit concentrations and trends, key policy deviations, macroeconomic trends with material impact to the Bank. The Hong Kong Credit Risk Committee exercises active oversight on credit risk related regulatory developments, the use of rating systems and ensure the continuing appropriateness of stress testing. The Hong Kong Credit Risk Committee comprises the Credit Head of the Bank and representatives from relevant business units, credit, risk management and other support units.

(e) Hong Kong Market and Liquidity Risk Committee

The Hong Kong Market and Liquidity Risk Committee provides comprehensive and bank-wide oversight of all market and liquidity risks and their management in trading and banking books. It serves as an executive forum for discussions and decisions on all aspects of market and liquidity risks and their management. It maintains oversight on effectiveness of market and liquidity risk management framework including policies, models, people, systems, processes, information and methodologies. It sets standards and provides necessary guidance on the establishment and maintenance of the bank-wide liquidity contingency plan. The Hong Kong Market and Liquidity Risk Committee comprises senior management and representatives from Risk Management and representatives from relevant business units and support units.

(f) Hong Kong Operational Risk Committee

The Hong Kong Operational Risk Committee provides comprehensive location-wide oversight and direction relating to the management of operational risks. It monitors and reviews the effectiveness of operational risk management, policies, processes, methodologies and infrastructures. It performs top-down assessment and monitors critical operational risk exposures and provides direction for resolution of critical operational risk issues and monitors issue resolution. The Hong Kong Operational Risk Committee comprises the Head of Risk Management Group – Operational Risk, representatives from key business units and support units.

3 DISCLOSURE ON REMUNERATION PURSUANT TO THE HKMA SUPERVISORY POLICY MANUAL CG-5 "GUIDELINE ON A SOUND REMUNERATION SYSTEM"

(a) Design and implementation of the remuneration system

The Bank adopts the remuneration policy and practices formulated by DBSH. Please refer to the Annual Report of DBSH for major characteristics of the remuneration system.

(b) Aggregate quantitative information on remuneration for senior management and key personnel for the year ended 31 December 2015 are as follows:

Senior management is defined as those who are responsible for oversight of the Bank's strategy or activities or those of the Bank's material business lines. Key personnel is defined as individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Bank.

Breakdown of remuneration awarded (i)	2015	2014
Number of senior management	**10**	10
Number of key personnel	**1**	1
In HK$ millions		
Fixed remuneration		
• Cash based (non-deferred)	**36**	35
• Share based	**–**	–
• Other	**–**	–
Variable remuneration (ii)		
• Cash based (non-deferred)	**36**	37
• Share based (deferred)	**24**	24
• Other	**–**	–
	96	96

In HK$ millions Breakdown of deferred remuneration	2015	2014
• Outstanding – vested	**–**	–
• Outstanding – unvested	**71**	87
• Awarded during the year	**24**	24
• Paid out during the year	**20**	15
• Reductions in current year due to ex-post adjustment – explicit	**–**	–
• Reductions in current year due to ex-post adjustment – implicit	**(10)**	–

(i) Remuneration figures for senior management and key personnel are aggregated due to small number of key personnel.
(ii) Cash and share based variable remuneration are subject to the approval of the DBSH Board of Directors.
(iii) Examples of explicit ex-post adjustments include malus, clawbacks, or similar reversals or downward revaluation of awards.
(iv) Examples of implicit ex-post adjustments include fluctuations in the value of shares or performance units.

No senior management or key personnel has been awarded with new guaranteed bonus or severance payments in 2015 (2014: Nil).

No severance payment being paid to senior management or key personnel (2014: Nil).

No sign-on award being paid to senior management or key personnel (2014: Nil).

4 INTERNAL AUDIT

Internal Audit is a function that is independent of the activities it audits. The objective, scope of authority and responsibility of Internal Audit are defined in the Hong Kong Audit charter, which is approved by the BAC. Head of Internal Audit reports functionally to the Head of Group Audit and the BAC, as well as administratively to the CEO.

Internal Audit's responsibilities include:

(i) Evaluating the reliability, adequacy and effectiveness of the Bank's risk management and internal control systems, including whether there is prompt and accurate recording of transactions and proper safeguarding of assets;
(ii) Providing an objective and independent assessment of the Bank's credit portfolio quality, the execution of approved credit portfolio strategies and control standards relating to credit management processes;
(iii) Reviewing whether the Bank complies with laws and regulations and adheres to established policies; and
(iv) Reviewing whether management is taking appropriate steps to address control deficiencies.

Internal Audit adopts a risk-based approach in its auditing activities. An annual audit plan is developed using a structured risk and control assessment framework, where Internal Audit assesses the inherent risk and control effectiveness of each auditable entity in the Bank. The assessment also covers risks arising from new lines of business or product. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas. Consideration is also given to conducting audit projects required by regulators. Appropriate resources are deployed to complete the plan, which is reviewed and approved by the BAC.

Internal Audit has unfettered access to the BAC and senior management, as well as the right to seek information and explanation. Internal Audit has an organisational and strategic alignment to the Bank. The positioning of Internal Audit is such that the Head of Internal Audit has a seat in the Bank's HKMC attending all the business reviews and strategic planning forums.

Internal Audit staff is required to adhere to the Code of Conduct as well as the Code of Ethics established by the Institute of Internal Auditors (IIA), from which the principles of objectivity, competence, confidentiality and integrity are based. In addition, Internal Audit is guided by Group Audit's Mission Statement which is incorporated into the Audit Charter and is fully aligned with the latest IIA International Professional Practices Framework (IPPF) for internal audit. In terms of measuring Internal Audit's effectiveness, we have held ourselves against measures which are fully aligned with the IIA's new 10 Core Principles for professional practice of internal auditing, which accompany the existing mandatory components of the IPPF.

Audit reports containing identified issues and corrective action plans are reported to the BAC and senior management. The progress of the corrective action plans is monitored through a centralised issue management system. Information on outstanding issues is included in regular reports to the BAC, senior management and business and support unit heads.

Internal Audit apprises the regulators and external auditors of all relevant audit matters. It works closely with the external auditors to coordinate audit efforts.

QUALITY ASSURANCE & KEY DEVELOPMENTS

In line with leading practices, Group Audit has established a quality assurance and improvement programme that covers all aspects of its audit activity and conforms to the International Standards for the Professional Practice of Internal Auditing. The programme includes periodic internal quality assurance reviews, self-assessments based on standards established by the IIA and internal audit methodologies, stakeholder surveys and industry benchmarking surveys. External quality assessments are also carried out at least once every five years by qualified professionals from an external organisation. The most recent assessment was conducted in 2013 by KPMG. KPMG is also the independent assessor for Group Audit's quarterly internal quality assurance review in 2014 and 2015.

In 2015, Group Audit achieved several milestones: (a) Group Audit was inducted into the Securities Investors Association of Singapore (SIAS) Hall of Fame for Internal Audit Excellence. This reflects the recognition by the industry for exemplary corporate governance and transparency (b) Group Audit won an Engineering Award for a predictive auditing project on Branch Risk Profiling – in collaboration with A*Star Institute of Infocomm Research (I^2R). The Award is the first ever to be won by a financial institution.

In addition, Group Audit continues to leverage on technology and automation in providing greater insights and timely warnings on emerging risks. Among the key initiatives in its *Future of Auditing* roadmap are the industrialisation of computer-assisted auditing techniques and the continuous auditing approach – the development and application of automated audit test scripts to perform control and risk assessments automatically on a frequent basis. Group Audit continues to collaborate with A*Star I^2R in developing predictive models to anticipate emerging risks.