星展銀行DBS

星 展 銀 行 (香 港) 有 限 公 司

DBS BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

Annual Report 2016

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONTENTS

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 2016.

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 2016 are set out in the consolidated income statement on page 6.

An interim dividend of HK$0.2 per ordinary share totalling HK$1,400 million was paid on 13 October 2016 for the year ended 31 December 2016 (2015: the first interim ordinary dividend of HK$1,000 million and the second interim ordinary dividend of HK$1,500 million).

The directors recommend the payment of a final dividend of HK$0.057 per ordinary share totalling HK$400 million for the year ended 31 December 2016 (2015: Nil).

Share capital

On 7 October 2016, the Bank entered into a preference share subscription agreement with DBS Group Holdings Ltd. ("DBSH"), the ultimate holding company of the Bank and issued 140 non-cumulative Class A preference shares to DBSH on 13 October 2016 for an aggregate issue price of HK$1,400 million.

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

No debentures were issued by the Bank during the year.

Donations

Donations made by the Group during the year amounted to HK$390,000 (2015: HK$495,000).

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
Dominic Chiu Fai Ho
Ng Chee Siong, Robert
Kwok Kwok Chuen
Yip Dicky Peter
Nancy Sau Ling Tse

In accordance with the articles of association of the Bank, Mr. Seah Lim Huat, Peter, Mr. Piyush Gupta, Mr. J. E. Sebastian Paredes Muirragui, Mr. Dominic Chiu Fai Ho, Mr. Ng Chee Siong, Robert, Mr. Kwok Kwok Chuen and Mr. Yip Dicky Peter will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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. Nimish Anil Bhanulal Panchmatia; Ms Hinei Turama Meha; Mr. Januar Tjandra; Mr. Peter Henry Triggs; Mr. Teo Yin Fong, Royce; Mr. Cheung Kin Sang; Ms Soh Fern Boey and Mr. V Arivazhagan. Ms Phau Yee Meng, Pearlyn resigned as a director of the Bank's subsidiary on 8 March 2016. Mr. David John Lynch and Ms Mok Tze Shan, Teresa resigned as directors of the Bank's subsidiaries on 1 April 2016. Mr. David Maxwell Sceats resigned as a director of the Bank's subsidiary on 30 November 2016.

Directors' material interests in significant transactions, arrangements and contracts

In 2015, the Bank granted a four-year tenor 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 DBSH, 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 36,253 share awards were granted to Mr. Seah Lim Huat, Peter and 43,892 share awards were vested in him;

2) A total of 487,626 share awards were granted to Mr. Piyush Gupta and 338,811 share awards were vested in him;

3) A total of 136,692 share awards were granted to Mr. J. E. Sebastian Paredes Muirragui and 76,547 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 assets of the Bank against all liabilities incurred by him/her as a director for the benefit of the Bank or 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 and Officers 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, 9 February 2017

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)

Opinion

What we have audited

The consolidated financial statements of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together the "Group") set out on pages 6 to 56, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the report of the directors, unaudited supplementary information and corporate governance report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 February 2017

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED INCOME STATEMENT

In HK$ millions	Note	Year ended 31 December 2016	2015
Interest income		**6,587**	6,556
Interest expense		**(1,429)**	(1,856)
Net interest income	4	**5,158**	4,700
Net fee and commission income	5	**2,060**	1,923
Net trading income	6	**1,039**	1,546
Net income from investment securities	7	**98**	92
Other income	8	**139**	458
Total income		**8,494**	8,719
Total expenses	9	**(4,553)**	(4,503)
Profit before allowances for credit losses		**3,941**	4,216
Allowances for credit losses	10	**(1,689)**	(552)
Profit before income tax		**2,252**	3,664
Income tax expense	12	**(370)**	(534)
Profit attributable to shareholders		**1,882**	3,130

The notes on pages 11 to 56 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 2016	2015
Profit attributable to shareholders	**1,882**	3,130
Other comprehensive income		
Available-for-sale financial investments		
– Net valuation taken to equity	**(115)**	1
– Transferred to income statement	**(78)**	(56)
– Deferred income tax credited to equity	**31**	9
Other comprehensive income attributable to shareholders, net of tax	**(162)**	(46)
Total comprehensive income attributable to shareholders	**1,720**	3,084

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 11 to 56 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 2016	2015
Assets			
Cash and balances with central banks	15	**3,201**	6,305
Government securities and treasury bills	16	**22,500**	17,022
Due from banks	17	**153,077**	96,006
Derivatives	33	**1,661**	7,363
Bank and corporate securities	18	**12,930**	10,526
Loans and advances to customers	19	**145,738**	160,208
Other assets	21	**7,514**	7,712
Properties and other fixed assets	24(a)	**2,166**	2,483
Goodwill and intangibles	23	**177**	187
Total assets		**348,964**	307,812
Liabilities			
Due to banks		**14,610**	9,689
Deposits and balances from customers	25	**274,151**	241,065
Derivatives	33	**1,935**	7,626
Certificates of deposit issued	26	**2,765**	4,479
Other liabilities	27	**16,180**	7,353
Subordinated liability	29	**4,188**	4,185
Total liabilities		**313,829**	274,397
Equity			
Share capital	30(a)	**8,995**	7,595
Reserves	30(b)	**26,140**	25,820
Total equity		**35,135**	33,415
Total liabilities and equity		**348,964**	307,812

The notes on pages 11 to 56 form part of these financial statements.

Seah Lim Huat, Peter
Chairman

J.E. Sebastian Paredes Muirragui
Director

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In HK$ millions	Share capital	Other reserves	Retained earnings	Total equity
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
Balance as at 1 January 2016	**7,595**	**2,453**	**23,367**	**33,415**
Issuance of preference shares	**1,400**	**–**	**–**	**1,400**
Transferred to retained earnings on sale of investment properties	**–**	**(18)**	**18**	**–**
Total comprehensive income	**–**	**(162)**	**1,882**	**1,720**
Dividend	**–**	**–**	**(1,400)**	**(1,400)**
Balance as at 31 December 2016	**8,995**	**2,273**	**23,867**	**35,135**

Final dividend of HK$400 million (2015: Nil) was proposed after the end of the reporting period, please refer to Note 13 for details.

The notes on pages 11 to 56 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 2016	2015
Cash flows from operating activities			
Profit before income tax		**2,252**	3,664
Adjustments for non-cash items:			
Net gain on disposal of properties and other fixed assets		**(41)**	(364)
Fair value adjustment on investment properties		**(1)**	4
Allowances for credit losses		**1,689**	552
Write-off of properties and other fixed assets		**3**	1
Depreciation and amortisation		**256**	231
Advances written off net of recoveries		**(690)**	(500)
Revaluation for certificates of deposit issued		**(73)**	(13)
Amortisation of discount on certificates of deposit issued		**3**	2
Interest expense for certificates of deposit issued		**110**	130
Interest expense for subordinated liability		**135**	119
Profit before changes in operating assets and liabilities		**3,643**	3,826
Increase / (decrease) in:			
Due to banks		**4,921**	5,412
Deposits and balances from customers		**33,086**	(11,194)
Other liabilities and derivatives		**3,143**	51
(Increase) / decrease in:			
Due from banks		**(33,238)**	(34,502)
Government securities and treasury bills		**(4,560)**	4,231
Loans and advances to customers		**13,876**	24,467
Bank and corporate securities		**(2,542)**	1,323
Other assets and derivatives		**5,510**	(5,485)
Net cash generated from / (used in) operating activities before income tax		**23,839**	(11,871)
Hong Kong profits tax paid		**(349)**	(529)
Overseas tax paid		**(4)**	(7)
Net cash generated from / (used in) operating activities		**23,486**	(12,407)
Cash flows from investing activities			
Purchase of fixed assets		**(254)**	(226)
Proceeds from disposal of properties and other fixed assets		**364**	565
Net cash generated from investing activities		**110**	339
Cash flows from financing activities			
Dividend paid		**(1,400)**	(2,500)
Issuance of preference shares		**1,400**	–
Interest paid for certificates of deposits issued		**(123)**	(131)
Interest paid for subordinated liability		**(130)**	(111)
Issuance of certificates of deposit	32(a)	**1,283**	623
Redemption of certificates of deposit issued	32(a)	**(2,927)**	(1,094)
Net cash used in financing activities		**(1,897)**	(3,213)
Exchange differences and other adjustments		**3**	(4)
Net change in cash and cash equivalents		**21,702**	(15,285)
Cash and cash equivalents as at 1 January		**40,281**	55,566
Cash and cash equivalents as at 31 December	32(b)	**61,983**	40,281

The notes on pages 11 to 56 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 2016

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 9 February 2017.

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 Cap 622.

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 2016, the Group adopted the following new or revised HKFRSs that are issued by HKICPA and relevant for the Group.

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Disclosure Initiative (Amendments to Hong Kong Accounting Standard ("HKAS") 1 Presentation of Financial Statements)

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 2016, including:

- HKFRS 9 Financial Instruments (effective 1 January 2018)
- HKFRS 15 Revenue from Customer Contracts (effective 1 January 2018)
- HKFRS 16 Leases (effective 1 January 2019)

The Group has not applied these standards or amended standards in preparing these financial statements. The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. It is not yet practicable to quantify the effect on these financial statements.

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.

The Group conducted its initial assessment of the impact on the Group's financial statements. The Group's initial assessment of the three elements of HKFRS 9 is as described below.

Classification and measurement

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under HKFRS 9.

Loans and receivables financial assets that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under HKFRS 9.

For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under HKFRS 9. The expected classification and measurement of these financial assets under HKFRS 9 is summarised below:

- A significant portion of the Available-for-sale (AFS) debt securities are expected to be classified as financial assets subsequently measured at fair value through other comprehensive income (FVOCI) as they are held to maintain liquidity for the Group and may be sold from time to time should the need arise.

- The remaining portion of the AFS debt securities are held to collect contractual cash flows. The Group expects to classify these as financial assets subsequently measured at amortised cost.

– Equity securities that are currently classified as held for trading will continue to be classified as financial assets subsequently measured at fair value through profit or loss (FVTPL).

– The remaining equity securities will generally be classified as measured at FVTPL. However, the Group may make irrevocable elections from time to time according to the intention of holding to present subsequent changes in fair value in other comprehensive income (OCI). When such an election is made, only dividend income is recognised in profit or loss. Any subsequent fair value changes are recognised in OCI and will not be reclassified to profit or loss even upon divestment.

Impairment
The Group is currently refining its impairment loss estimation methodology to quantify the impact on its financial statements.

Hedge accounting
The Group expects that all its existing hedges that are designated in effective hedging relationships will continue to qualify for hedge accounting under HKFRS 9.

Transition
The Group plans to adopt the standard when it becomes effective in 2018 without restating comparative information; and is gathering data to quantify the potential impact arising from the adoption.

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 the 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, bancassurance sales commission and variable service 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 and bancassurance fixed service fees.

Fee and commission income is recorded net of expenses directly related to 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 a 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:

- Non-derivative financial assets 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.

- Non-derivative 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 non-derivative 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 at fair value through profit or loss).

  Realised or unrealised gains or losses on financial liabilities held for trading and financial liabilities designated at fair value through profit or loss, 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, and preference shares which do not result in the Group having a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the Group, are classified as equity. Incremental external costs directly attributable to the issuance of these instruments are accounted for as a deduction from equity.

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 of financial assets

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 impairment

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	2016	2015
Interest income on listed investments	**209**	263
Interest income on unlisted investments	**216**	142
Other interest income	**6,162**	6,151
Total interest income (a)	**6,587**	6,556
Interest expense on subordinated liability (Note 29)	**(135)**	(119)
Other interest expense	**(1,294)**	(1,737)
Total interest expense (b)	**(1,429)**	(1,856)
Net interest income	**5,158**	4,700

(a) *Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK$6,513 million (2015: HK$6,466 million).*

(b) *Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK$1,407 million (2015: HK$1,850 million).*

5 NET FEE AND COMMISSION INCOME

In HK$ millions	2016	2015
Fee and commission income	**2,548**	2,348
Less: Fee and commission expense	**(488)**	(425)
Net fee and commission income	**2,060**	1,923
Comprising:		
– Wealth management	**785**	680
– Trade and transaction services (a)	**516**	483
– Loan related	**274**	255
– Cards	**293**	337
– Stock broking	**30**	55
– Others	**162**	113
Total net fee and commission income	**2,060**	1,923

(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	**1,066**	945
– Trust or other fiduciary activities	**51**	20
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	**437**	326

6 NET TRADING INCOME

In HK$ millions	2016	2015
Net trading income		
– Foreign exchange	**932**	1,390
– Interest rates, equities and others	**129**	237
	1,061	1,627
Net loss from financial instruments designated at fair value through profit or loss	**(22)**	(81)
	1,039	1,546

7 NET INCOME FROM INVESTMENT SECURITIES

In HK$ millions	2016	2015
Debt securities		
– Available-for-sale	**78**	67
Equity securities	**20**	25
	98	92
Of which dividend income from:		
– Listed investments	**–**	–
– Unlisted investments	**20**	25
	20	25

8 OTHER INCOME

In HK$ millions	2016	2015
Rental income	**47**	35
Fair value adjustment on investment properties (Note 24(a))	**1**	(4)
Net gain on disposal of properties and other fixed assets	**41**	364
Others	**50**	63
	139	458

9 TOTAL EXPENSES

In HK$ millions	2016	2015
Employee benefits		
– Salaries and other short term employee benefits	**2,437**	2,468
– Pensions	**143**	143
– Share-based compensation	**56**	55
Premises and equipment expenses excluding depreciation		
– Rental of premises	**282**	265
– Others	**170**	177
Depreciation (Note 24(a))	**246**	221
Auditor's remuneration	**9**	10
Computerisation expenses	**482**	491
Other operating expenses	**728**	673
	4,553	4,503

10 ALLOWANCES FOR CREDIT LOSSES

In HK$ millions	2016	2015
Individual impairment allowances on loans and advances to customers (Note 20)	**1,007**	139
Collective impairment allowances on loans and advances to customers (Note 20)	**277**	255
Individual impairment allowances on other assets	**405**	158
	1,689	552
Individual impairment allowances on loans and advances to customers		
– New allowances	**1,127**	375
– Release	**(114)**	(210)
– Recoveries	**(6)**	(26)
	1,007	139
Collective impairment allowances on loans and advances to customers		
– New allowances	**432**	394
– Release	**(108)**	(85)
– Recoveries	**(47)**	(54)
	277	255
Individual impairment allowances on other assets		
– New allowances	**442**	158
– Release	**(37)**	–
– Recoveries	**–**	–
	405	158

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	2016	2015
Fees (a)	**–**	3
Salaries, housing and other allowances and benefits (b)	**20**	22
Contributions paid under a retirement benefit scheme	**1**	1
	21	26

(a) The directors' fees, if any, are payable in 2017 to eligible persons who acted as Directors of DBS Bank (Hong Kong) Limited during the year ended 31 December 2016. 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

In 2015, the Bank granted a four-year tenor 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	2016	2015
Hong Kong profits tax		
– Current year	**352**	543
– Overprovision in prior years	**(1)**	(37)
Overseas tax		
– Current year	**5**	10
Current income tax	**356**	516
Deferred income tax (Note 28(b))	**14**	18
	370	534

Hong Kong profits tax has been provided at 16.5% (2015: 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	2016	2015
Accelerated depreciation allowances	**12**	16
Impairment allowances	**1**	3
Share-based compensation	**(3)**	(2)
Accrued expenses	**4**	1
	14	18

(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% (2015: 16.5%) is as follows:

In HK$ millions	2016	2015
Profit before income tax	**2,252**	3,664
Tax calculated at tax rate of 16.5% (2015: 16.5%)	**372**	605
Effect of different tax rates in other countries	**(1)**	(2)
Income not subject to tax	**(11)**	(66)
Expenses not deductible for tax purposes	**10**	33
Overprovision in prior years	**(1)**	(37)
Others	**1**	1
Income tax expense	**370**	534

13 DIVIDEND

	2016		2015	
	Per share HK$	HK$ millions	Per share HK$	HK$ millions
First interim dividend	**0.200**	**1,400**	0.143	1,000
Second interim dividend	**–**	**–**	0.214	1,500
Final dividend	**0.057**	**400**	–	–
	0.257	**1,800**	0.357	2,500

The final dividend proposed after the end of the reporting period is not reflected as a dividend payable in these financial statements. It will be recommended to the next Annual General Meeting and reflected as an appropriation of retained earnings of next financial year.

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
2016						
Assets						
Cash and balances with central banks	**–**	**–**	**–**	**3,201**	**–**	**3,201**
Government securities and treasury bills	**8,300**	**–**	**14,200**	**–**	**–**	**22,500**
Due from banks	**–**	**–**	**–**	**153,077**	**–**	**153,077**
Derivatives	**1,558**	**–**	**–**	**–**	**103**	**1,661**
Bank and corporate securities	**803**	**–**	**11,060**	**1,067**	**–**	**12,930**
Loans and advances to customers	**–**	**–**	**–**	**145,738**	**–**	**145,738**
Other financial assets	**–**	**–**	**–**	**7,445**	**–**	**7,445**
Total financial assets	**10,661**	**–**	**25,260**	**310,528**	**103**	**346,552**
Non-financial assets						**2,412** (a)
Total assets						**348,964**
Liabilities						
Due to banks	**–**	**–**	**–**	**14,610**	**–**	**14,610**
Deposits and balances from customers	**–**	**3,308**	**–**	**270,843**	**–**	**274,151**
Derivatives	**1,903**	**–**	**–**	**–**	**32**	**1,935**
Certificates of deposit issued	**–**	**–**	**–**	**2,765**	**–**	**2,765**
Other financial liabilities	**7,812**	**–**	**–**	**8,359**	**–**	**16,171**
Subordinated liability	**–**	**–**	**–**	**4,188**	**–**	**4,188**
Total financial liabilities	**9,715**	**3,308**	**–**	**300,765**	**32**	**313,820**
Non-financial liabilities						**9** (b)
Total liabilities						**313,829**

(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
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

15 CASH AND BALANCES WITH CENTRAL BANKS

In HK$ millions	2016	2015
Cash in hand	**615**	598
Balances with central banks	**2,586**	5,707
	3,201	6,305

16 GOVERNMENT SECURITIES AND TREASURY BILLS

In HK$ millions	Held for trading	Available-for-sale	Total
2016			
Treasury bills	**7,938**	**8,826**	**16,764**
Other debt securities	**362**	**5,374**	**5,736**
	8,300	**14,200**	**22,500**
Of which:			
– listed in Hong Kong, at fair value	**359**	**623**	**982**
– listed outside Hong Kong, at fair value	**–**	**885**	**885**
– unlisted, at fair value	**7,941**	**12,692**	**20,633**
	8,300	**14,200**	**22,500**
Analysed by issuer as follows:			
– Sovereigns	**8,300**	**14,200**	**22,500**
Analysed by rating agency designation as follows:			
– AAA	**–**	**852**	**852**
– AA- to AA+	**8,300**	**13,348**	**21,648**
	8,300	**14,200**	**22,500**

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

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 2016 and 2015, there were no impaired, overdue, or rescheduled available-for-sale financial assets.

17 DUE FROM BANKS

In HK$ millions	2016	2015
Balances with banks	**4,935**	3,136
Placements with and advances to banks		
Remaining maturity		
– Within one month	**59,529**	36,969
– One year or less but over one month	**43,173**	45,610
– Over one year and others	**45,440**	10,291
	148,142	92,870
Total	**153,077**	96,006

As at 31 December 2016 and 2015, there were no impaired, overdue or rescheduled placements with and advances to banks.

18 BANK AND CORPORATE SECURITIES

In HK$ millions	Held for trading	Available-for-sale	Loans and receivables	Total
2016				
Certificate of deposit held	**221**	**–**	**–**	**221**
Other debt securities	**582**	**11,031**	**1,067**	**12,680**
Debt securities	**803**	**11,031**	**1,067**	**12,901**
Equity securities	**–**	**29**	**–**	**29**
	803	**11,060**	**1,067**	**12,930**
Of which:				
Debt securities				
– Listed in Hong Kong, at fair value	**240**	**1,929**	**–**	**2,169**
– Listed outside Hong Kong, at fair value	**265**	**4,355**	**–**	**4,620**
– Listed outside Hong Kong, at cost	**–**	**–**	**–**	**–**
– Unlisted, at fair value	**298**	**4,747**	**–**	**5,045**
– Unlisted, at cost	**–**	**–**	**1,067**	**1,067**
	803	**11,031**	**1,067**	**12,901**
Equity securities				
– Unlisted, at cost	**–**	**29**	**–**	**29**
	–	**29**	**–**	**29**
	803	**11,060**	**1,067**	**12,930**
Analysed by issuer as follows:				
– Public sector entities	**–**	**392**	**–**	**392**
– Banks	**601**	**7,612**	**1,067**	**9,280**
– Corporates	**202**	**3,045**	**–**	**3,247**
– Others	**–**	**11**	**–**	**11**
	803	**11,060**	**1,067**	**12,930**
Debt securities analysed by rating agency designation as follows:				
– AAA	**–**	**4,427**	**–**	**4,427**
– AA- to AA+	**185**	**3,577**	**1,067**	**4,829**
– A- to A+	**510**	**2,830**	**–**	**3,340**
– BBB to BBB+	**90**	**186**	**–**	**276**
– Unrated	**18**	**11**	**–**	**29**
	803	**11,031**	**1,067**	**12,901**

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
Debt securities 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

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 2016, the fair value of the above debt securities classified as loans and receivables is HK$1,066 million (2015: HK$2,774 million).

As at 31 December 2016 and 2015, 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	2016	2015
Gross loans and advances to customers	**147,755**	161,558
Less: Impairment allowances		
– Individually assessed (Note 20)	**(1,214)**	(524)
– Collectively assessed (Note 20)	**(803)**	(826)
	145,738	160,208
Comprising:		
– Trade bills	**5,784**	15,584
– Loans	**139,954**	144,624
	145,738	160,208

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

In HK$ millions	2016	2015
Gross investments in finance leases and hire purchase contracts receivables:		
– Not later than one year	**635**	767
– Later than one year and not later than five years	**1,845**	1,990
– Later than five years	**7,046**	7,071
	9,526	9,828
Unearned future finance income	**(9)**	(11)
Net investments in finance leases and hire purchase contracts receivables	**9,517**	9,817
The net investments in finance leases and hire purchase contracts receivables are analysed as follows:		
– Not later than one year	**631**	761
– Later than one year and not later than five years	**1,841**	1,986
– Later than five years	**7,045**	7,070
	9,517	9,817

The unguaranteed residual values included in the gross investments in finance leases and hire purchase contracts receivables as at 31 December 2016 and 2015 are not material.

The individual impairment allowances for finance leases and hire purchase contracts receivables amounted to HK$2 million as at 31 December 2016 (2015: HK$8 million).

20 IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS

In HK$ millions	Individually assessed	Collectively assessed	Total
As at 1 January 2016	**524**	**826**	**1,350**
Amounts written off	**(359)**	**(384)**	**(743)**
Recoveries of loans and advances written off in previous years	**6**	**47**	**53**
Net charge to consolidated income statement (Note 10)	**1,007**	**277**	**1,284**
Others (a)	**36**	**37**	**73**
As at 31 December 2016	**1,214**	**803**	**2,017**
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 (a)	1	56	57
As at 31 December 2015	524	826	1,350

(a) *Included transfers-in of HK$36 million of individual impairment allowance on other assets (2015: Nil).*

21 OTHER ASSETS

In HK$ millions	2016	2015
Accrued interest receivables	**502**	538
Acceptances	**1,538**	1,618
Current income tax assets (Note 28(a))	**20**	22
Deferred tax assets (Note 28(b))	**49**	32
Cash collateral placed	**2,136**	3,682
Others (a)	**3,269**	1,820
	7,514	7,712

(a) *Included individual impairment allowances of HK$316 million (2015: HK$158 million).*

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 2016, 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	2016	2015
Goodwill	**168**	168
Intangibles (a)	**9**	19
Total goodwill and intangibles	**177**	187

(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 2016, these have a remaining estimated useful life of 1 year. 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% (2015: 4.5%) and discount rate of 9.0% (2015: 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 2016. 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 2016	**23**	**2,540**	**1,461**	**4,024**	**327**	**4,351**
Additions	**–**	**5**	**249**	**254**	**–**	**254**
Disposals	**–**	**(12)**	**(165)**	**(177)**	**(323)**	**(500)**
Fair value adjustment (Note 8)	**–**	**–**	**–**	**–**	**1**	**1**
As at 31 December 2016	**23**	**2,533**	**1,545**	**4,101**	**5**	**4,106**
Accumulated depreciation and impairment						
As at 1 January 2016	**17**	**902**	**949**	**1,868**	**–**	**1,868**
Charge for the year (Note 9)	**–**	**57**	**189**	**246**	**–**	**246**
Disposals	**–**	**(12)**	**(162)**	**(174)**	**–**	**(174)**
As at 31 December 2016	**17**	**947**	**976**	**1,940**	**–**	**1,940**
Net book value						
As at 31 December 2016	**6**	**1,586**	**569**	**2,161**	**5**	**2,166**
The analysis of cost or valuation of the above assets as at 31 December 2016 is as follows:						
At cost	**23**	**2,533**	**1,545**	**4,101**	**–**	**4,101**
At valuation	**–**	**–**	**–**	**–**	**5**	**5**
	23	**2,533**	**1,545**	**4,101**	**5**	**4,106**

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 (Note 8)	–	–	–	–	(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 (Note 9)	–	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

During the year, the Group purchased furniture, fixtures and equipment of HK$23 million (2015: Nil) from a fellow subsidiary.

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

In HK$ millions	**2016** Land and buildings	**2016** Investment properties	2015 Land and buildings	2015 Investment properties
Freeholds				
Held outside Hong Kong	**6**	**–**	6	–
Leaseholds				
Held in Hong Kong				
– Leases of over 50 years	**147**	**5**	151	327
– Leases of between 10 to 50 years	**1,437**	**–**	1,485	–
Held outside Hong Kong				
– Leases of between 10 to 50 years	**2**	**–**	2	–
	1,586	**5**	1,638	327

(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
2016				
Investment properties	**–**	**–**	**5**	**5**
2015				
Investment properties	–	–	327	327

During the year, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. 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	2016	2015
At 1 January	**327**	519
Fair value adjustment	**1**	(4)
Additions	**–**	2
Disposals	**(323)**	(170)
Transfers in	**–**	–
Transfers out	**–**	(20)
At 31 December	**5**	327

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	2016	2015
Deposits from customers, at amortised cost	**270,843**	239,653
Structured investment deposits classified as financial liabilities designated at fair value through profit or loss (a)	**3,308**	1,412
	274,151	241,065
Analysed by:		
– Demand deposits and current accounts	**45,326**	37,284
– Savings deposits	**115,073**	96,235
– Time, call and notice deposits	**113,752**	107,546
	274,151	241,065

(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$3 million higher than the contractual amount at maturity as at 31 December 2016 (2015: HK$8 million lower).

26 CERTIFICATES OF DEPOSIT ISSUED

In HK$ millions	2016	2015
Certificates of deposit issued, measured at amortised cost	**2,765**	4,479

27 OTHER LIABILITIES

In HK$ millions	2016	2015
Accrued interest payable	**293**	279
Acceptances	**1,538**	1,618
Current income tax liabilities (Note 28(a))	**9**	8
Payable in respect of short sale of securities	**7,812**	1,780
Other liabilities and provisions (a)	**6,528**	3,668
	16,180	7,353

(a) Included income received in advance of HK$1,559 million (2015: Nil) arising from the 15-year distribution agreement with Manulife.

28 TAXATION

(a) Current income tax asset and liabilities

In HK$ millions	2016	2015
Current income tax assets (Note 21)		
Hong Kong profits tax recoverable	**20**	22
Current income tax liabilities (Note 27)		
Overseas tax payable	**9**	8

(b) Deferred income tax

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

In HK$ millions	2016	2015
As at 1 January	**32**	41
Deferred income tax charged to income statement (Note 12(a))	**(14)**	(18)
Deferred income tax credited to equity (Note 30(b)(ii))	**31**	9
As at 31 December	**49**	32

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

In HK$ millions	2016	2015
Deferred tax assets		
Impairment allowances	**102**	103
Share-based compensation	**18**	15
Accrued expenses	**2**	6
Revaluation of investment securities	**28**	–
	150	124
Deferred tax liabilities		
Accelerated depreciation allowances	**101**	89
Revaluation of investment securities	**–**	3
	101	92

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	2016	2015
Deferred tax assets	**150**	124
Deferred tax liabilities	**(101)**	(92)
	49	32

29 SUBORDINATED LIABILITY

The Bank issued a subordinated loan of US$540 million 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. The terms and conditions remain unchanged after the assignment. Interest is paid quarterly each year at USD 3-month LIBOR plus 2.5% per annum. The subordinated loan matures on 12 December 2022, and is repayable on 13 December 2017 or any interest payment date thereafter. The terms require the subordinated loan to be converted into ordinary shares if and when the Hong Kong Monetary Authority ("HKMA") notifies the Bank that a conversion of the instrument, or a public sector injection of capital (or equivalent support), is necessary, without which the Bank would become non-viable. The subordinated loan is Basel III-compliant and qualify as Tier 2 capital of the Bank under the Banking (Capital) Rules made by the HKMA.

30 CAPITAL AND RESERVES

(a) Share capital

	2016 Number of shares	2016 HK$ millions	2015 Number of shares	2015 HK$ millions
Ordinary shares				
At 1 January and 31 December	**7,000 million**	**7,595**	7,000 million	7,595
Preference shares				
At 1 January	**–**	**–**	–	–
Issuance of perpetual preference shares (i)	**140**	**1,400**	–	–
At 31 December	**140**	**1,400**	–	–
Issued share capital at 31 December		**8,995**		7,595

(i) The Bank issued 140 non-cumulative, Class A preference shares to its parent holding company, DBS Group Holdings Ltd. on 13 October 2016 for an aggregate issue price of HK$1,400 million. Dividends are payable annually at the rate of 3.9% per annum at the discretion of the Bank. The preference shares are redeemable on 13 October 2021 or any date thereafter. The terms require the preference shares to be converted into ordinary shares if and when the HKMA notifies the Bank that a conversion of the instrument, or a public sector injection of capital (or equivalent support), is necessary, without which the Bank would become non-viable. In addition, holders of the preference shares are subject to the exercise of the Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority, which may include a conversion of the preference shares into ordinary shares of the Bank. The preference shares are Basel III-compliant and qualify as Additional Tier 1 capital of the Bank under the Banking (Capital) Rules made by the HKMA.

(b) Reserves

In HK$ millions	Group 2016	Group 2015	Bank 2016	Bank 2015
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	**15**	61	**15**	61
Net valuation taken to equity	**(115)**	1	**(115)**	1
Transferred to income statement	**(78)**	(56)	**(78)**	(56)
Deferred income tax credited to equity (Note 28(b))	**31**	9	**31**	9
As at 31 December	**(147)**	15	**(147)**	15
(iii) Properties revaluation reserve				
As at 1 January	**27**	98	**27**	98
Transferred to retained earnings	**(18)**	(71)	**(18)**	(71)
As at 31 December	**9**	27	**9**	27
(iv) General reserve				
As at 1 January and 31 December	**2,399**	2,399	**2,285**	2,285
Total other reserves	**2,273**	2,453	**2,147**	2,327
Retained earnings				
As at 1 January	**23,367**	22,666	**23,279**	22,335
Profit attributable to shareholders	**1,882**	3,130	**1,891**	3,373
Transferred from other reserves	**18**	71	**18**	71
Dividend (Note 13)	**(1,400)**	(2,500)	**(1,400)**	(2,500)
As at 31 December	**23,867**	23,367	**23,788**	23,279
Total reserves	**26,140**	25,820	**25,935**	25,606

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 2016, HK$1,057 million (2015: HK$1,159 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 HKMA.

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
2016				
Assets				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	**8,300**	**–**	**–**	**8,300**
– Bank and corporate securities	**550**	**253**	**–**	**803**
Available-for-sale financial assets				
– Government securities and treasury bills	**14,006**	**194**	**–**	**14,200**
– Bank and corporate securities	**10,364**	**567**	**100**	**11,031**
Derivatives	**–**	**1,661**	**–**	**1,661**
Liabilities				
Payable in respect of short sale of securities	**7,812**	**–**	**–**	**7,812**
Financial liabilities designated at fair value through profit or loss	**–**	**3,308**	**–**	**3,308**
Derivatives	**–**	**1,935**	**–**	**1,935**

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

During the year, there were no transfers between Level 1 and Level 2 (2015: Nil), while the Level 3 financial assets increased from HK$1 million to HK$100 million representing net purchase and sale 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 2015	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**
Cash inflow from financing activities	**1,283**	**–**
Cash outflow from financing activities	**(2,927)**	**–**
Revaluation	**(73)**	**–**
Amortisation of discount	**3**	**–**
Exchange differences and other adjustments	**–**	**3**
Balance as at 31 December 2016	**2,765**	**4,188**

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

In HK$ millions	**2016**	**2015**
Cash and balances with central banks	**3,201**	6,305
Due from banks		
– Balances with banks	**4,935**	3,136
– Placements with and advances to banks repayable with original maturity within three months	**51,516**	29,482
Bills and notes repayable with original maturity within three months	**2,331**	1,358
	61,983	40,281

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
2016				
Derivatives held for trading				
Foreign exchange derivatives				
– Forwards	**34,875**	**513**	**360**	**391**
– Swaps	**89,718**	**138**	**476**	**757**
– Options purchased	**23,887**	**590**	**417**	**70**
– Options written	**26,058**	**112**	**70**	**434**
	174,538	**1,353**	**1,323**	**1,652**
Interest rate derivatives				
– Futures	**16**	**–**	**–**	**–**
– Swaps	**22,919**	**81**	**218**	**234**
– Options purchased	**760**	**–**	**–**	**–**
– Options written	**760**	**–**	**–**	**–**
	24,455	**81**	**218**	**234**
Equity derivatives	**1,064**	**33**	**14**	**14**
Commodity derivatives	**64**	**4**	**3**	**3**
Total derivatives held for trading	**200,121**	**1,471**	**1,558**	**1,903**
Derivatives designated and qualified as fair value hedges				
Interest rate derivatives				
– Swaps	**3,084**	**45**	**103**	**32**
Total	**203,205**	**1,516**	**1,661**	**1,935**

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	230,530	390	1,205	1,607
– Options purchased	139,234	5,911	3,279	264
– Options written	139,825	924	265	3,289
	622,730	10,499	6,876	7,254
Interest rate derivatives				
– Swaps	19,961	144	256	272
– Options purchased	200	–	–	–
– Options written	200	–	–	–
	20,361	144	256	272
Equity derivatives	692	30	15	15
Commodity derivatives	195	34	34	34
Total derivatives held for trading	643,978	10,707	7,181	7,575
Derivatives designated and qualified as fair value hedges				
Interest rate derivatives				
– Swaps	5,320	46	182	51
Total	649,298	10,753	7,363	7,626

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 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 2016 and 31 December 2015 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 2016, the Group has interest rate swap agreements in place with a notional amount of HK$3,084 million (2015: HK$5,320 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 losses on the hedging instruments are HK$3 million (2015: gains of HK$58 million). The gains on the hedged items attributable to the hedged risk are HK$3 million (2015: losses of HK$59 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	2016	2015
Direct credit substitutes	**367**	595
Transaction-related contingencies	**2,116**	1,860
Trade-related contingencies	**9,048**	6,913
Forward forward deposits placed	**2,863**	–
Other commitments with an original maturity of not more than one year	**2,082**	502
Other commitments with an original maturity of more than one year	**1,260**	1,392
Other commitments which are unconditionally cancellable	**151,499**	151,112
	169,235	162,374
Credit risk-weighted amount	**16,726**	15,414

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$1,538 million (2015: HK$1,618 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	2016	2015
Expenditure contracted but not provided for	**128**	109
Expenditure authorised but not contracted for	**36**	27
	164	136

(b) Lease commitments

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

	2016		2015	
In HK$ millions	Properties	Others	Properties	Others
Not later than one year	**292**	**10**	268	11
Later than one year and not later than five years	**580**	**1**	646	–
Later than five years	**453**	**–**	534	–
	1,325	**11**	1,448	11

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	2016	2015
Secured liabilities – short positions in securities (Note 27)	**7,812**	1,780
Assets pledged as security		
– Treasury bills	**8,369**	1,638
– Other securities	**76**	156
	8,445	1,794

The assets pledged as security included financial assets at fair value through profit or loss of HK$7,850 million (2015: HK$1,783 million).

There were no securities lending transaction outstanding as at 31 December 2016 and 2015.

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 2016, no financial assets and liabilities were offset on the statement of financial position (2015: 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)	Related amounts not offset on statement of financial position: Financial instruments (including non-cash collateral)[(a)] (B)	Cash collateral received / pledged (C)	Net amounts[(b)] (D)= (A)-(B)-(C)
2016				
Financial assets				
Positive fair values for financial derivatives	**1,661**	**770**	**44**	**847**
Financial liabilities				
Negative fair values for financial derivatives	**1,935**	**770**	**1,165**	**–**
Payable in respect of short sale of securities	**7,812**	**7,812**	**–**	**–**
Total	**9,747**	**8,582**	**1,165**	**–**
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

(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's 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 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	2016	2015
Neither past due nor impaired	**141,982**	156,545
Past due but not impaired	**2,112**	2,086
Impaired	**3,661**	2,927
	147,755	161,558

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 HKMA guidelines

In HK$ millions	Pass	Special mention	Total
2016			
Manufacturing	**10,556**	**1,566**	**12,122**
Building and construction	**24,261**	**509**	**24,770**
Housing loans	**24,009**	**14**	**24,023**
General commerce	**39,006**	**2,342**	**41,348**
Transportation, storage and communication	**11,812**	**18**	**11,830**
Financial institutions, investments and holding companies	**4,235**	**–**	**4,235**
Professionals and private individuals (except housing loans)	**21,500**	**1**	**21,501**
Others	**2,104**	**49**	**2,153**
	137,483	**4,499**	**141,982**

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

(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
2016					
Manufacturing	**92**	**1**	**1**	**–**	**94**
Building and construction	**136**	**1**	**–**	**–**	**137**
Housing loans	**489**	**10**	**–**	**–**	**499**
General commerce	**322**	**19**	**4**	**–**	**345**
Transportation, storage and communication	**192**	**9**	**5**	**55**	**261**
Financial institutions, investments and holding companies	**–**	**–**	**–**	**–**	**–**
Professionals and private individuals (except housing loans)	**287**	**16**	**–**	**320**	**623**
Others	**152**	**1**	**–**	**–**	**153**
	1,670	**57**	**10**	**375**	**2,112**

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

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	2016	2015
Manufacturing	**632**	251
Building and construction	**269**	181
Housing loans	**25**	64
General commerce	**1,718**	1,393
Transportation, storage and communication	**7**	10
Financial institutions, investments and holding companies	**–**	–
Professionals and private individuals (except housing loans)	**4**	3
Others	**1,006**	1,025
	3,661	2,927

	2016 HK$'M	2016 % of gross Loans and advances to customers	2015 HK$'M	2015 % of gross Loans and advances to customers
Gross impaired advances	**3,661**	**2.48**	2,927	1.81
Individual impairment allowances	**(1,214)**		(524)	
	2,447		2,403	
Impaired advances covered by collateral	**1,915**		1,547	

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 2016	Amounts written off	Recoveries of advances written off in previous years	Net charge to income statement	Others	As at 31 December 2016
Manufacturing	**90**	**(52)**	**3**	**142**	**20**	**203**
Building and construction	**18**	**(2)**	**–**	**6**	**–**	**22**
Housing loans	**–**	**–**	**2**	**(2)**	**–**	**–**
General commerce	**407**	**(300)**	**1**	**463**	**16**	**587**
Transportation, storage and communication	**7**	**–**	**–**	**2**	**–**	**9**
Professionals and private individuals (except housing loans)	**–**	**–**	**–**	**1**	**–**	**1**
Others	**2**	**(5)**	**–**	**395**	**–**	**392**
	524	**(359)**	**6**	**1,007**	**36**	**1,214**

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

Analysis of collective impairment allowances

In HK$ millions	As at 1 January 2016	Additions/ (Releases)	As at 31 December 2016
Manufacturing	**56**	**12**	**68**
Building and construction	**113**	**5**	**118**
Housing loans	**–**	**1**	**1**
General commerce	**255**	**(19)**	**236**
Transportation, storage and communication	**107**	**(18)**	**89**
Financial institutions, investments and holding companies	**4**	**–**	**4**
Professionals and private individuals (except housing loans)	**260**	**(1)**	**259**
Others	**31**	**(3)**	**28**
	826	**(23)**	**803**

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

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 2016			
Hong Kong	**110,301**	**20,753**	**131,054**
Mainland China	**4,639**	**3,255**	**7,894**
Others	**6,390**	**2,417**	**8,807**
	121,330	**26,425**	**147,755**
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

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 2016			
Hong Kong	**2,296**	**542**	**689**
Mainland China	**377**	**236**	**27**
As at 31 December 2015			
Hong Kong	1,868	404	707
Mainland China	107	81	19

(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 Group Market Risk Management Policy, approved by the BRMC, sets out the Group's overall approach towards market risk management and establishes the base standards for market risk management within the Group. The Policy is supported by Standards which sets out guidance and requirements with more details for specific subject matters. The set of Policy, Standards and supporting Guides 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. 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 97.5% level of confidence.

Group (97.5% ES)

		1 Jan 2016 to 31 Dec 2016		
In HK$ millions	**As at 31 Dec 2016**	**Average**	**High**	**Low**
Total	**148.3**	**113.3**	**150.4**	**79.2**

		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 in 2016 was lower than that in 2015, mainly due to reduction in banking book HKD interest rate risk in June – September 2016.

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

Trading (97.5% ES)

In HK$ millions	As at 31 Dec 2016	1 Jan 2016 to 31 Dec 2016 Average	High	Low
Total	**7.8**	**6.4**	**10.7**	**3.6**

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 2016 were interest rates, foreign exchange and credit spreads. Trading portfolios' average ES decreased by HK$0.7 million (10%), contributed largely by a reduction in credit spread risk exposures.

Trading portfolio experienced 3 backtesting exceptions in 2016, same as 2015. The exceptions occurred in January and February when there was pronounced market volatility.

The key market risk drivers of the Group's non-trading portfolios are 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$1,006 million and HK$2,154 million (2015: negative HK$688 million and HK$1,002 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 2016 and 2015 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 loans to our customers.

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 capitalizing 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 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 to address potential cash flow shortfalls and maintaining diversified sources of liquidity. Counterbalancing capacity includes liquid assets and the capacity to borrow from the money markets as well as forms of managerial interventions that improve 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 cash flow maturity mismatch analysis. The analysis is performed on a regular basis under normal and adverse scenarios. It assesses the adequacy of the counterbalancing capacity to fund or mitigate any cash flow shortfalls that may occur as forecasted in the cash flow movements across successive time bands. To ensure that liquidity is managed in line with the Risk Appetite, 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 evaluation and action.

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 cash flow maturity mismatch analysis and are performed regularly to obtain deeper insights and finer control over the liquidity profile across the Group. The liquidity risk control measures also include concentration measures on top depositors and wholesale borrowing ratios.

- **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
2016								
Assets								
– Cash and balances with central banks	**3,201**	**–**	**–**	**–**	**–**	**–**	**–**	**3,201**
– Government securities and treasury bills, classified as								
– Held-for-trading	**–**	**1,477**	**2,929**	**3,550**	**329**	**15**	**–**	**8,300**
– Available-for-sale	**–**	**3,465**	**3,576**	**3,711**	**2,362**	**1,086**	**–**	**14,200**
– Due from banks	**4,935**	**59,529**	**16,624**	**26,549**	**45,402**	**–**	**38**	**153,077**
– Bank and corporate securities								
– Debt securities classified as held-for-trading	**–**	**82**	**39**	**539**	**142**	**1**	**–**	**803**
– Debt securities classified as available-for-sale	**–**	**683**	**976**	**800**	**7,319**	**1,244**	**9**	**11,031**
– Debt securities classified as loans and receivables	**–**	**–**	**–**	**–**	**1,067**	**–**	**–**	**1,067**
– Equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**29**	**29**
– Loans and advances to customers	**8,877**	**31,054**	**23,130**	**16,438**	**30,973**	**32,614**	**2,652**	**145,738**
– Others	**21**	**3,553**	**1,461**	**281**	**145**	**17**	**6,040**	**11,518**
Total assets	**17,034**	**99,843**	**48,735**	**51,868**	**87,739**	**34,977**	**8,768**	**348,964**
Liabilities								
– Due to banks	**7,247**	**2,804**	**3,492**	**–**	**1,067**	**–**	**–**	**14,610**
– Deposits and balances from customers	**160,398**	**40,059**	**50,045**	**23,606**	**43**	**–**	**–**	**274,151**
– Certificates of deposit issued	**–**	**450**	**–**	**80**	**2,235**	**–**	**–**	**2,765**
– Subordinated liability	**–**	**–**	**–**	**4,188**	**–**	**–**	**–**	**4,188**
– Others	**672**	**8,815**	**3,164**	**2,012**	**67**	**17**	**3,368**	**18,115**
Total liabilities	**168,317**	**52,128**	**56,701**	**29,886**	**3,412**	**17**	**3,368**	**313,829**
Of which:								
Certificates of deposit held included in bank and corporate securities, classified as:								
– Held-for-trading	**–**	**–**	**–**	**221**	**–**	**–**	**–**	**221**

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

The above tables indicate disclosure of contractual maturity of financial liabilities, which approximate the same analysis on an undiscounted basis as total future interest payments are not material relative to the principal amounts.

The table below shows the contractual undiscounted cash flows for derivatives, contingent liabilities and commitments.

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
2016						
Derivatives settled on a net basis	**–**	**4**	**–**	**45**	**(2)**	**47**
Derivatives settled on a gross basis						
– inflow	**–**	**103,016**	**28,034**	**3,985**	**–**	**135,035**
– outflow	**–**	**(103,157)**	**(28,108)**	**(3,968)**	**–**	**(135,233)**
Contingent liabilities and commitments						
– Contingent liabilities	**–**	**11,531**	**–**	**–**	**–**	**11,531**
– Commitments	**76,971**	**80,733**	**–**	**–**	**–**	**157,704**
	76,971	**92,264**	**–**	**–**	**–**	**169,235**

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						
Derivatives settled on a net basis	–	14	33	69	14	130
Derivatives settled on a gross basis						
– 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

The Group actively monitors and manages its liquidity profile based on the cash flow maturity mismatch analysis.

In forecasting the cash flow 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 cash flow. 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 adopted in the Group's behavioural profiling of assets, liabilities and off-balance sheet commitments that have exhibited cash flow 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 one-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
2016				
Net liquidity mismatch	**11,121**	**24,445**	**21,065**	**20,195**
Cumulative mismatch	**11,121**	**35,566**	**56,631**	**76,826**
2015[ii]				
Net liquidity mismatch	21,234	12,151	33,470	32,241
Cumulative mismatch	21,234	33,385	66,855	99,096

(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 and 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**

The Group Operational Risk Management (ORM) Policy sets the overall approach for managing operational risk in a structured, systematic and consistent manner.

There are policies, standards, tools and programmes in place to govern ORM practices across the Group. These include corporate operational risk policies and standards that are owned by the respective corporate oversight and control functions. The key policies address risk areas relating to technology, compliance, fraud, money laundering, financing of terrorisms and sanctions, new product and outsourcing.

- **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 2016 and 2015.

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

	DBS Group Holdings Ltd		DBS Bank Ltd		Fellow subsidiaries	
In HK$ millions	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	**–**	–	**972**	560	**61**	28
Interest expense	**(136)**	(119)	**(85)**	(32)	**–**	(3)
Net fee and commission income / (expense)	**–**	–	**76**	50	**(5)**	(10)
Net trading profit / (loss)	**–**	–	**1,082**	(3,153)	**–**	–
Other income	**–**	–	**37**	36	**20**	6
Total expenses recovered / (charged)	**–**	–	**(28)**	10	**84**	80

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

In HK$ millions	**2016**	**2015**
Assets		
Due from banks	**145,937**	84,411
Derivatives	**687**	1,434
Other assets	**2,604**	4,173
	149,228	90,018
Liabilities		
Due to banks	**10,278**	7,145
Derivatives	**1,720**	7,281
Other liabilities	**105**	84
	12,103	14,510

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

In HK$ millions	**2016**	**2015**
Foreign exchange contracts	**127,804**	421,171
Interest rate contracts	**19,318**	19,350
Equity contracts	**532**	295
Commodity contracts	**32**	97
	147,686	440,913

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

As at 31 December 2016, total contingent liabilities and commitments with DBS Bank Ltd and fellow subsidiaries amounted to HK$5,354 million (2015: HK$2,041 million).

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

In HK$ millions	**2016**	**2015**
Deposits and balances from customers	**315**	315

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

In HK$ millions	**2016**	**2015**
Assets		
Other assets	**–**	5
Liabilities		
Subordinated liability	**4,188**	4,185
Other liabilities	**8**	6
	4,196	4,191

(vii) Balances with fellow subsidiaries as at 31 December

In HK$ millions	**2016**	**2015**
Due from banks	**8**	289
Loans and advances to customers	**597**	929
Bank and corporate securities	**1,067**	1,312
Other assets	**90**	72
	1,762	2,602
Due to banks	**145**	130
Deposits and balances from customers	**2,013**	1,803
Other liabilities	**69**	72
	2,227	2,005

(b) Directors and key management personnel

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

For the year ended 31 December 2016 and 2015, 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	2016	2015
Salaries, other short term employee benefits and directors' fee (Note)	**70**	76
Pension	**3**	3
Share-based compensation	**25**	22
	98	101

Note:

The directors' fees if any, are payable in 2017 to eligible persons who acted as Directors of DBS Bank (Hong Kong) Limited during the year ended 31 December 2016. 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	HIBOR+1.3%
– Security	Properties
Outstanding loan balance	
– At 1 January 2015	–
– At 31 December 2015 and 1 January 2016	HK$760 million
– At 31 December 2016	HK$788 million
Maximum balance outstanding	
– During 2015	HK$760 million
– During 2016	HK$788 million

As at 31 December 2016 and 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)	
• The Share Plan is granted to Group executives as determined by the CMDC appointed to administer the Share Plan from time to time.	41(i)
• Participants are awarded shares of DBSH or, at the CMDC's discretion, their equivalent cash value or a combination.	
• Awards consist of main award and retention award (20% of main awards). Dividends on unvested shares are not accrued to employees.	
• The 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 remaining 34% plus the retention award will vest 4 years after grant.	
• The market price of shares on the grant date is used to estimate the fair value of the shares awarded.	
• Vested and unvested shares are subject to clawback/malus. Conditions that trigger such clawback/malus are in the Corporate Governance section of DBSH's Annual Report.	
DBSH Employee Share Plan (ESP)	
• The ESP caters to employees not eligible to participate in the above listed Share Plan. Eligible employees are awarded ordinary shares of DBSH, their equivalent cash value or a combination of both (at the discretion of the CMDC), when time-based conditions are met.	41(i)
• The awards structure and vesting conditions are similar to DBSH 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. For such cases, vested and unvested shares are subject to clawback/malus. Conditions that trigger such clawback/malus are in the Corporate Governance section of DBSH's Annual Report.	
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.	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:

Number of shares	2016 Share Plan	2016 ESP	2015 Share Plan	2015 ESP
Balance at 1 January	**1,364,348**	**436,665**	1,232,295	409,252
Granted	**627,227**	**204,100**	514,704	191,621
Transfer	**(28,031)**	**797**	2,403	133
Vested	**(390,411)**	**(123,541)**	(335,039)	(119,225)
Forfeited	**(42,572)**	**(52,516)**	(50,015)	(45,116)
Balance at 31 December	**1,530,561**	**465,505**	1,364,348	436,665
Weighted average fair value of the shares granted during the year	**SG$13.70**	**SG$13.69**	SG$19.47	SG$19.51

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.

	2016		2015	
	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
Movements during the year:				
– Exercised	–	–	(33,377)	12.81
– Forfeited / Expired	–	–	(2,234)	12.81
Balance as at 31 December	–	–	–	–

There were no outstanding options under DBSH Share Option Plan as of 31 December 2016 and 2015.

During 2015, 33,377 options were exercised at their contractual exercise prices, and the corresponding weighted average market price of DBSH shares was SG$19.77.

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

42 ACQUISITIONS

On 31 October 2016, DBS Bank Ltd. has agreed to acquire the wealth management and retail banking business of Australia and New Zealand Banking Group in five markets, including Singapore, Hong Kong, China, Taiwan and Indonesia.

The acquisition of the business in each jurisdiction is independent of each other. Subject to obtaining regulatory approvals, the transaction is anticipated to be completed progressively from 2Q 2017 onwards, and the target is for full completion in all markets by early 2018.

43 BANK LEVEL STATEMENT OF FINANCIAL POSITION

In HK$ millions	Note	As at 31 December 2016	2015
Assets			
Cash and balances with central banks		**3,201**	6,305
Government securities and treasury bills		**22,500**	17,022
Due from banks		**153,077**	96,006
Derivatives		**1,661**	7,363
Bank and corporate securities		**12,930**	10,526
Loans and advances to customers		**145,738**	160,208
Other assets		**7,514**	7,712
Subsidiaries		**53**	53
Properties and other fixed assets		**2,166**	2,483
Total assets		**348,840**	307,678
Liabilities			
Due to banks		**14,610**	9,689
Deposits and balances from customers		**274,151**	241,065
Derivatives		**1,935**	7,626
Certificates of deposit issued		**2,765**	4,479
Other liabilities		**16,180**	7,353
Amounts due to subsidiaries		**81**	80
Subordinated liability		**4,188**	4,185
Total liabilities		**313,910**	274,477
Equity			
Share capital		**8,995**	7,595
Reserves	30(b)	**25,935**	25,606
Total equity		**34,930**	33,201
Total liabilities and equity		**348,840**	307,678

Seah Lim Huat, Peter
Chairman

J.E. Sebastian Paredes Muirragui
Director

DBS Bank (Hong Kong) Limited and its Subsidiaries

UNAUDITED SUPPLEMENTARY INFORMATION

for the year ended 31 December 2016

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

1 CAPITAL ADEQUACY

The capital adequacy ratios as at 31 December 2016 and 31 December 2015 were compiled in accordance with the Banking (Capital) Rules issued by the HKMA.

	As at 31 December 2016	**As at 31 December 2015**
Capital Adequacy Ratios		
Common Equity Tier 1	**15.6%**	14.9%
Tier 1	**16.2%**	14.9%
Total	**18.3%**	17.0%

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.

The relevant disclosures pursuant to 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 2016 and 31 December 2015 were compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	As at 31 December 2016	**As at 31 December 2015**
Leverage ratio	**9.0%**	9.5%

The relevant disclosures pursuant to section 45A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website www.dbs.com.hk.

3 CAPITAL CONSERVATION BUFFER RATIO

The capital conservation buffer ratio for calculating the Bank's buffer level is 0.625% for 2016 in accordance with section 3M of the Banking (Capital) Rules.

4 COUNTERCYCLICAL CAPITAL BUFFER RATIO

The countercyclical capital buffer ratio as at 31 December 2016 was compiled in accordance with section 3O of the Banking (Capital) Rules.

	As at 31 December 2016
Countercyclical capital buffer ratio	**0.6%**

The relevant disclosures pursuant to section 45B of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website www.dbs.com.hk.

5 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

6 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	2016	2015
Credit risk:		
IRB approach		
Retail exposures:		
Residential mortgages	**335**	277
Qualifying revolving retail exposures	**1,489**	1,450
Small business retail exposures	**–**	–
Other retail exposures to individuals	**982**	982
Wholesale exposures:		
Sovereign exposures	**202**	198
Bank exposures	**3,117**	2,559
Corporate exposures	**7,053**	7,946
Other exposures	**321**	356
	13,499	13,768
Standardised approach		
On-balance sheet		
Public sector entity exposures	**3**	5
Bank exposures	**4**	4
Corporate exposures	**937**	726
Regulatory retail exposures	**63**	68
Other exposures which are not past due exposures	**424**	421
Past due exposures	**34**	36
Off-balance sheet		
Off-balance sheet exposures other than over-the-counter derivative transactions	**52**	40
Over-the-counter derivative transactions	**19**	9
	1,536	1,309
Credit valuation adjustment	**47**	325
Total capital requirements for credit risk	**15,082**	15,402
Market risk:		
Standardised approach		
Interest rate exposures	**87**	132
Foreign exchange exposures	**8**	38
Total capital requirements for market risk	**95**	170
Total capital requirements for operational risk	**1,167**	1,155
Total capital requirements before deductions	**16,344**	16,727
Deductions	**(5)**	(21)
Total capital requirements after deductions	**16,339**	16,706

7 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; the main findings of the monitoring outcome is also reported to the Board Risk Management Committee of the Bank. 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. This process ensures that any material deterioration in the rating system performance is highlighted for management's attention.

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	2016	2015
Retail exposures:		
Retail IRB approach		
Residential mortgages	**24,248**	26,632
Qualifying revolving retail exposures	**57,558**	57,728
Small business retail exposures	**8**	15
Other retail exposures to individuals	**9,954**	9,900
Wholesale exposures:		
Foundation IRB approach		
Sovereign exposures	**20,447**	23,691
Bank exposures	**173,686**	125,214
Corporate exposures	**72,437**	80,449
Supervisory slotting criteria approach		
Specialised lending	**9,352**	8,507
Other exposures:		
Specific risk-weight approach	**5,897**	5,065
	373,587	337,201

(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 account behaviour. 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	2016 Exposure amount	2015 Exposure amount
Up to 0.10%	**23,745**	26,144
> 0.10% to 0.50%	**–**	–
> 0.50%	**477**	472
Default	**26**	16
	24,248	26,632

Qualifying revolving retail exposures

In HK$ millions EL% range	2016 Exposure amount	2015 Exposure amount
Up to 5%	**55,476**	55,651
> 5%	**2,018**	2,023
Default	**64**	54
	57,558	57,728

Small business retail exposures

In HK$ millions EL% range	2016 Exposure amount	2015 Exposure amount
Up to 0.3%	**8**	15
	8	15

Other retail exposures to individuals

In HK$ millions EL% range	2016 Exposure amount	2015 Exposure amount
Up to 0.3%	**4,715**	4,578
> 0.3%	**5,194**	5,271
Default	**45**	51
	9,954	9,900

(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 account behavioural 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 (%)**
2016			
1-3	**0.00 – 0.10**	**20,447**	**12**

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

Bank exposures

Credit Risk Rating	**PD range (%)**	**Exposure amount HK$'M**	**Exposure-weighted average risk-weight (%)**
2016			
1-3	**0.03 – 0.10**	**171,555**	**22**
4A/4B	**0.10 – 0.33**	**992**	**68**
5	**0.33 – 0.47**	**413**	**86**
6A/6B	**0.47 – 1.11**	**365**	**112**
7A-9	**1.11 – 99.99**	**361**	**131**
		173,686	

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
		125,214	

Corporate exposures

Credit Risk Rating	**PD range (%)**	**Exposure amount HK$'M**	**Exposure-weighted average risk-weight (%)**
2016			
1-3	**0.03 – 0.10**	**3,172**	**19**
4A/4B	**0.10 – 0.33**	**2,994**	**47**
5	**0.33 – 0.47**	**1,431**	**62**
6A/6B	**0.47 – 1.11**	**6,326**	**78**
7A-9	**1.11 – 99.99**	**54,838**	**117**
10A-11	**100**	**3,676**	**215**
		72,437	

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
		80,449	

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 (%)
2016		
Strong	**1,184**	**58**
Good	**7,152**	**89**
Satisfactory	**951**	**122**
Weak	**65**	**265**
	9,352	

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
	8,507	

(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 2016	Expected loss as at 31 December 2015
Residential mortgages	**–**	**18**
Qualifying revolving retail exposures	**159**	**573**
Small business retail exposures	**–**	**–**
Other retail exposures to individuals	**104**	**805**
Sovereign exposures	**–**	**48**
Bank exposures	**–**	**32**
Corporate exposures	**979**	**961**
	1,242	**2,437**

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

Comparison of actual default rate against estimated probability of default

% Exposure classes	Actual percentage of default for the year ended 31 December 2016	Estimated 1-year probability of default as at 31 December 2015
Residential mortgages	**0.07**	**0.46**
Qualifying revolving retail exposures	**0.46**	**1.04**
Small business retail exposures	**–**	**0.29**
Other retail exposures to individuals	**3.56**	**10.70**
Sovereign exposures	**–**	**0.02**
Bank exposures	**–**	**0.53**
Corporate exposures	**2.61**	**3.59**

% 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

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 2016 and 2015.

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 2016 and 2015 respectively. The two measures of losses are therefore not directly comparable.

8 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
2016			
On-balance sheet			
Public sector entity exposures	**–**	**212**	**42**
Bank exposures	**51**	**51**	**51**
Corporate exposures	**12,698**	**11,707**	**11,707**
Regulatory retail exposures	**1,864**	**1,044**	**783**
Other exposures which are not past due exposures	**7,526**	**5,235**	**5,303**
Past due exposures	**298**	**298**	**429**
	22,437	**18,547**	**18,315**
Off-balance sheet			
Off-balance sheet exposures other than over-the-counter derivative transactions	**748**	**650**	**650**
Over-the-counter derivative transactions	**240**	**240**	**240**
	988	**890**	**890**

In HK$ millions	Exposure amount	Exposure amount after credit risk mitigation	Risk-weighted amount after credit risk mitigation
2015			
On-balance sheet			
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

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.

9 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 2016 and 31 December 2015, 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**
2016		
Foundation IRB approach		
Corporate exposures	**31,026**	**7,133**
Bank exposures	**24**	**–**
	31,050	**7,133**
Standardised approach		
Corporate exposures	**991**	**–**
Regulatory retail exposures	**820**	**–**
Other exposures which are not past due exposures	**2,079**	**212**
Past due exposures	**28**	**2**
Off-balance sheet exposures other than over-the-counter derivative transactions	**98**	**–**
Over-the-counter derivative transactions	**–**	**–**
	4,016	**214**
	35,066	**7,347**

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
	38,137	10,241

10 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	2016	2015
Counterparty credit risk exposures under IRB approach		
Default risk exposures		
Derivative contracts		
– Positive fair values	**1,547**	7,373
– Potential future exposures	**1,706**	6,693
	3,253	14,066
Of which:		
– Bank exposures	**2,100**	5,310
– Corporate exposures	**1,153**	8,756
	3,253	14,066
Less : Effects of netting arrangement	**(1,455)**	(3,639)
Default risk exposures after netting	**1,798**	10,427
Less: Collateral amount		
– Recognised financial collateral	**(141)**	(550)
– Other eligible collateral	**(252)**	(1,220)
	1,405	8,657
Risk-weighted amounts		
Derivative contracts		
– Bank exposures	**155**	355
– Corporate exposures	**1,121**	10,281
	1,276	10,636

In HK$ millions	2016	2015
Counterparty credit risk exposures under Standardised approach		
Default risk exposures		
Derivative contracts		
– Positive fair values	**104**	84
– Potential future exposures	**136**	105
	240	189
Of which:		
– Corporate exposures	**240**	124
– Regulatory retail exposures	**–**	2
– Other exposures which are not past due exposures	**–**	63
	240	189
Less: Recognised financial collateral	**–**	(72)
	240	117
Risk-weighted amounts		
Derivative contracts		
– Corporate exposures	**240**	113
– Regulatory retail exposures	**–**	2
– Other exposures which are not past due exposures	**–**	2
	240	117

There is no outstanding credit derivative contract and securities financing transaction which creates exposures to counterparty credit risk as at 31 December 2016 (2015: 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 3-notch downgrade in the Bank's credit ratings, the impact on the Bank's collateral obligations under derivative contracts is minimal.

11 SEGMENTAL INFORMATION

(a) Segmental information by class of business

In HK$ millions 2016	Commercial and consumer banking	Treasury	Others	Total
Total income	**7,600**	**763**	**131**	**8,494**
Profit before allowances for credit losses	**3,239**	**619**	**83**	**3,941**
Profit before income tax	**1,549**	**619**	**84**	**2,252**
Operating assets	**144,803**	**195,287**	**8,874**	**348,964**
2015				
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

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
2016					
Developed countries	**11,412**	**4,850**	**60**	**2,492**	**18,814**
Offshore centres, of which	**148,578**	**27**	**230**	**30,829**	**179,664**
– Singapore	**148,379**	**7**	**7**	**2,330**	**150,723**
– Hong Kong	**183**	**20**	**223**	**25,091**	**25,517**
– Others	**16**	**–**	**–**	**3,408**	**3,424**
Developing Europe	**–**	**–**	**–**	**190**	**190**
Developing Latin America and Caribbean	**24**	**–**	**–**	**484**	**508**
Developing Africa and Middle East	**7**	**–**	**–**	**398**	**405**
Developing Asia-Pacific, of which	**9,159**	**382**	**71**	**8,234**	**17,846**
– China	**8,788**	**382**	**71**	**6,838**	**16,079**
– Others	**371**	**–**	**–**	**1,396**	**1,767**
International organisations	**–**	**1,546**	**–**	**–**	**1,546**
	169,180	**6,805**	**361**	**42,627**	**218,973**
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

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

12 LOANS AND ADVANCES TO CUSTOMERS

(a) *Loans and advances to customers by loan usage*

In HK$ millions	2016 Outstanding balance	2016 Balance covered by collateral	2015 Outstanding balance	2015 Balance covered by collateral
Gross loans and advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**3,296**	**3,221**	2,566	2,308
– Property investment	**21,827**	**21,001**	23,288	22,636
– Financial concerns	**3,524**	**3,248**	2,621	2,317
– Stockbrokers	**661**	**64**	962	33
– Wholesale and retail trade	**15,179**	**11,533**	15,578	11,939
– Manufacturing	**11,083**	**7,684**	9,378	6,497
– Transport and transport equipment	**10,598**	**9,850**	10,487	9,847
– Recreational activities	**178**	**156**	105	92
– Information technology	**538**	**146**	369	148
– Others	**4,972**	**3,477**	6,254	4,547
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	**220**	**220**	294	294
– Loans for the purchase of other residential properties	**21,828**	**21,828**	23,712	23,712
– Credit card advances	**8,516**	**–**	9,041	–
– Others	**12,898**	**5,925**	13,443	6,520
	115,318	**88,353**	118,098	90,890
Trade finance (including trade bills)	**26,425**	**11,765**	37,547	13,691
Gross loans and advances for use outside Hong Kong	**6,012**	**1,477**	5,913	2,726
	147,755	**101,595**	161,558	107,307

(b) *Overdue loans and advances to customers*

The overdue loans and advances are analysed as follows:

	2016 HK$'M	2016 % of gross loans and advances to customers	2015 HK$'M	2015 % of gross loans and advances to customers
Six months or less but over three months	**678**	**0.46**	436	0.27
One year or less but over six months	**687**	**0.47**	326	0.20
Over one year	**1,465**	**0.99**	731	0.45
	2,830	**1.92**	1,493	0.92
Individual impairment allowances made in respect of the above overdue loans and advances	**1,121**		446	
Current market value of collateral held against the covered portion of the above overdue loans and advances	**1,990**		1,448	
Covered portion of the above overdue loans and advances	**1,256**		924	
Uncovered portion of the above overdue loans and advances	**1,574**		569	

(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:

	2016		2015	
	HK$'M	% of gross loans and advances to customers	HK$'M	% of gross loans and advances to customers
Rescheduled loans and advances	**466**	**0.32**	409	0.25

(d) Repossessed assets

As at 31 December 2016, repossessed assets of the Bank amounted to HK$209 million (2015: HK$128 million).

(e) Overdue other assets

	2016 HK$'M	2015 HK$'M
Six months or less but over three months	8	65
One year or less but over six months	409	3
Over one year	22	–
	439	68

(f) 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
2016			
(a) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**2,159**	**389**	**2,548**
(b) Local governments, local government-owned entities and their subsidiaries and JVs	**497**	**25**	**522**
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**4,149**	**1,326**	**5,475**
(d) Other entities of central government not reported in part (a) above	**–**	**1**	**1**
(e) Other entities of local governments not reported in part (b) above	**62**	**58**	**120**
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**4,358**	**1,325**	**5,683**
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**4,600**	**2,174**	**6,774**
Total	**15,825**	**5,298**	**21,123**
Total assets after provision	**346,046**		
On-balance sheet exposures as percentage of total assets	**4.57%**		

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	2,717	1,246	3,963
(d) Other entities of central government not reported in part (a) above	–	–	–
(e) Other entities of local governments not reported in part (b) above	18	–	18
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4,271	1,057	5,328
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,060	2,098	7,158
Total	13,322	4,700	18,022
Total assets after provision	305,793		
On-balance sheet exposures as percentage of total assets	4.36%		

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

13 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
2016				
Hong Kong dollar equivalents				
Spot assets	**136,421**	**4,152**	**12,993**	**153,566**
Spot liabilities	**(103,596)**	**(8,185)**	**(21,545)**	**(133,326)**
Forward purchases	**55,722**	**27,609**	**12,043**	**95,374**
Forward sales	**(86,379)**	**(23,572)**	**(3,471)**	**(113,422)**
Net options position	**(1)**	**2**	**(1)**	**–**
Net long non-structural position	**2,167**	**6**	**19**	**2,192**
Net structural position	**–**	**28**	**(28)**	**–**
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)

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 HKMA.

14 LIQUIDITY COVERAGE RATIO

The Bank complies with the minimum requirement of Liquidity Coverage Ratio ("LCR") on a daily basis, in accordance with the Banking (Liquidity) Rules issued by the HKMA. In 2016, the Bank is required to maintain an LCR of not less than 70%, increasing annually in steps of 10% to not less than 100% by January 2019.

	For the quarters ended			
	31 Dec 2016	**30 Sep 2016**	**30 Jun 2016**	**31 Mar 2016**
Average LCR	**128.5%**	**132.1%**	**131.1%**	**136.9%**

	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 HKMA 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) Nominating 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 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 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 DBS 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 the Market & Liquidity Risk Head of the Bank and representatives from risk management and other 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 risk. It monitors and reviews the effectiveness of operational risk management, policies, processes, methodologies and infrastructure. 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, and 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 2016 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)	**2016**	**2015**
Number of senior management	**11**	10
Number of key personnel	**1**	1
In HK$ millions		
Fixed remuneration		
• Cash based (non-deferred)	**37**	36
• Share based	**–**	–
• Other	**–**	–
Variable remuneration (ii)		
• Cash based (non-deferred)	**31**	36
• Share based (deferred)	**15**	24
• Other	**–**	–
	83	96

In HK$ millions **Breakdown of deferred remuneration**	**2016**	**2015**
• Outstanding – vested	**–**	–
• Outstanding – unvested	**85**	71
• Awarded during the year	**15**	24
• Paid out during the year	**19**	20
• Reductions in current year due to ex-post adjustment – explicit (iii)	**–**	–
• Reductions in current year due to ex-post adjustment – implicit (iv)	**–**	(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 2016 (2015: Nil).

No severance payment being paid to senior management or key personnel (2015: Nil).

No sign-on award being paid to senior management or key personnel (2015: Nil).

4 INTERNAL AUDIT

Internal Audit is independent of the activities it audits. The objective, scope of authority and responsibilities 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, through which the inherent risk and control effectiveness of each auditable entity in the Bank is assessed. The assessment also covers risks arising from new lines of business or new products. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas and as required by regulators.

Internal Audit has unfettered access to the BAC, the Board and management, as well as the right to seek information and explanation. Internal Audit has an organisational and strategic alignment to the Bank. The Head of Internal Audit has a seat in the Bank's HKMC. He or his delegate attends the business reviews and strategic planning forums.

Internal Audit adheres to the Code of Conduct and the Code of Ethics established by the Institute of Internal Auditors (IIA). It is also guided by Group Audit's Mission Statement in the Audit Charter and has aligned with the latest International Professional Practices Framework released in July 2015 by IIA. Internal Audit's effectiveness is measured with reference to the IIA's Ten Core Principles for the professional practice of internal auditing.

Audit reports containing identified issues and corrective action plans are reported to the BAC and senior management. Progress of the corrective action plans is monitored and past due actions plans are included in regular reports to the senior management and the BAC.

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 (QAIP) that covers all aspects of its audit activity and conforms to the International Standards for the Professional Practice of Internal Auditing. As part of our QAIP programme, external quality assessment reviews (QAR) are carried out at least once every five years by qualified professionals from an external organisation. Internal quality assurance reviews are conducted quarterly by independent assessor KPMG in 2015 and 2016.

Group Audit has leveraged extensively on the use of data, technology and automation to provide greater insights and timely warnings on emerging risks. In 2016, Group Audit operationalized its *Future of Auditing* roadmap through the industrialisation of computer-assisted auditing techniques and the continuous auditing (CA) approach – the application of automated audit test scripts to perform control and risk assessments automatically on a frequent basis. To date, Group Audit has amassed significant number of CA test scripts to be used across functional and location audits. These automated test scripts have been made available to key business and support units for them to conduct own self-assessments – as part of a group-wide effort to integrate risk and control governance across the three lines of defence.

Group Audit has closely collaborated with Singapore's A*Star Institute of Infocomm Research (I2R) – in developing predictive models to anticipate emerging risks in areas such as branch risk profiling, rogue trading analytics, and credit early warning through network effects. Group Audit's trading analytics model, based on machine learning techniques, has won two awards in 2016: (a) the engineering award by the Institute of Engineers Singapore (IES); (b) the ASEAN Outstanding Engineering Achievements Award. Last year, Group Audit's branch risk profiling model won the IES Award.

Group Audit has further invested in its training programme to upskill auditors in key areas, such as data analytics, coding and communication, in order to move in tandem with the Bank's digitalisation strategy. Auditor's IT skillsets are being enhanced through Group Audit's 2-year *iTranformation* initiative launched in 2015, aimed at transforming business auditors into integrated auditors, to take on more IT application audits. IT auditors will focus in depth on three key areas: Digital Banking, IT Infrastructure and Cyber Security.

Group Audit has also piloted the agile auditing approach in selected audits, aimed at enhancing transparency, increasing collaboration and prioritising focus areas with auditees, while maintaining audit independence.