



# Asia First

DBS Bank (Hong Kong) Limited  
Annual Report 2009



DBS. Living, Breathing Asia



# Contents

1	Report of the directors
4	Independent auditor's report
5	Consolidated income statement
6	Consolidated statement of comprehensive income
7	Consolidated balance sheet
8	Balance sheet
9	Consolidated statement of changes in equity
10	Consolidated cash flow statement
11	Notes to the financial statements
84	Unaudited supplementary information

# Asia First

---

Asia is recovering from the global financial turmoil as a strengthened economic bloc. A more robust and influential Asia, a major player on the world stage, has emerged from these challenging and unprecedented times.

Asia today is taking the lead, building on its history and strong foundations to become the world's powerhouse of ideas, innovation and commerce.

Indeed, this is shaping up to be Asia's decade: the world's resources, capital and talent are increasingly being channelled into this vibrant and opportunity-filled region.

Born and bred in Asia, DBS understands Asia, its people, its cultures, the ins and outs, and the ups and downs of doing business in the region. We are fully committed to our customers and the communities in Asia.

DBS puts Asia first.

DBS. Living, Breathing Asia

# **DBS BANK (HONG KONG) LIMITED**

## **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 2009.

### **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 24 to the financial statements.

### **Results and appropriations**

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 5.

No interim dividend was paid for the year ended 31 December 2009 (2008: An interim dividend of HK\$0.6538 per share totalling HK\$3,400,000,000 was paid).

The directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

### **Reserves**

Details of the movements in the reserves of the Bank and the Group during the year are set out in Note 35 to the financial statements.

### **Share capital**

Details of the movements in the share capital of the Bank during the year are set out in Note 34 to the financial statements.

### **Fixed assets**

Details of the movements in fixed assets during the year are set out in Note 25 to the financial statements.

### **Donations**

Donations made by the Group during the year amounted to HK\$371,000 (2008: HK\$1,328,000).

### **Directors**

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

Kwa Chong Seng – Chairman

Yip Yok Tak, Amy – Chief Executive

Cheng Wai Chee, Christopher

(resigned on 25 January 2010)

Alexander Reid Hamilton

Leung Ting Mow, Kenneth

Lo Chung Wing, Victor

Wong Kai Yuan, Jeanette

# DBS BANK (HONG KONG) LIMITED

## REPORT OF THE DIRECTORS (continued)

### Directors (continued)

In accordance with Article 98 of the Bank's Articles of Association, Mr. Alexander Reid Hamilton and Mr. Leung Ting Mow, Kenneth retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

### Directors' interests in contracts

No 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Arrangements to acquire shares

The following were arrangements which subsisted at the end of the year or at any time during the year which enabled the directors of the Bank to acquire benefits by means of the acquisition of shares of DBS Group Holdings Ltd. ("DBSH"), the ultimate holding company of the Bank, or to be awarded shares of DBSH (or their equivalent cash value).

#### (a) DBSH Share Option Plan

Under the DBSH Share Option Plan (the "Option Plan"), options to subscribe for DBSH ordinary shares may be granted to DBSH Group executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent).

At the beginning of the year, Ms. Wong Kai Yuan, Jeanette had outstanding options granted under the Option Plan.

During the year, no options were granted to directors of the Bank and none of the directors had acquired shares in DBSH by exercising options granted pursuant to the Option Plan.

#### (b) DBSH Share Plan

Under the DBSH Share Plan (the "Share Plan"), DBSH ordinary shares, their equivalent cash value or a combination of both, may be granted to DBSH Group executives who hold such rank as may be determined by the DBSH Compensation and Management Development Committee appointed to administer the Share Plan from time to time.

The awards could be performance-based and/or time-based. Performance-based awards are granted when prescribed DBSH Group performance targets are met over a three-year performance period. Time-based awards will only vest after satisfactory completion of time-based service conditions.

During the year, Ms. Yip Yok Tak, Amy and Ms. Wong Kai Yuan, Jeanette were eligible to receive awards under the Share Plan. A total of 106,647 DBSH shares were vested in Ms. Yip Yok Tak, Amy and Ms. Wong Kai Yuan, Jeanette under the Share Plan during the year.

Apart from the above, at no time during the year was the Bank or any of its subsidiaries or its holding companies or any subsidiary 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 corporate.

# **DBS BANK (HONG KONG) LIMITED**

## **REPORT OF THE DIRECTORS (continued)**

### **Management contracts**

On 12 November 2002, an Information Technology Outsourcing Agreement (the “IBM Agreement”) was entered into between the Bank and IBM China / Hong Kong Limited (“IBM”) in relation to the provision by IBM of certain information technology and related services to the Bank. The IBM Agreement was in line with the spirit of the Master Agreement (the “IBM Master Agreement”) dated 12 November 2002 entered into between DBS Bank Ltd., the Bank’s holding company, and IBM Singapore Pte. Limited. The IBM Agreement commenced on 12 November 2002 and continues until 23:59 (Singapore Time) on 11 November 2012, unless terminated earlier pursuant to the terms of the IBM Master Agreement.

On 1 April 2004, a Management Country Agreement (the “JLL Agreement”) was entered into between the Bank and Jones Lang LaSalle Limited (“JLL”) in relation to the provision by JLL of certain property management and related services to the Bank in Hong Kong. The JLL Agreement was in line with the spirit of the Master Agreement (the “JLL Master Agreement”) dated 1 April 2004 entered into between DBS Bank Ltd., and Jones Lang LaSalle Property Consultants Pte. Ltd. The initial term of the JLL Agreement covered the period from 1 April 2004 to 31 December 2006, or for so long as the JLL Master Agreement remains in effect, unless terminated earlier or extended under the terms of the JLL Agreement, whichever is earlier in time. The JLL Agreement has been extended to 30 April 2012.

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, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Kwa Chong Seng**  
Chairman

Hong Kong, 26 January 2010

# **DBS BANK (HONG KONG) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDERS OF DBS BANK (HONG KONG) LIMITED**

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 5 to 83, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Directors' responsibility for the financial statements**

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

#### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 26 January 2010

**DBS BANK (HONG KONG) LIMITED****CONSOLIDATED INCOME STATEMENT***FOR THE YEAR ENDED 31 DECEMBER 2009*

	Note	2009 HK\$'000	2008 HK\$'000
Interest income	4	<b>5,683,100</b>	8,528,210
Interest expense	5	<b>(1,246,567)</b>	(4,193,721)
Net interest income		<b>4,436,533</b>	4,334,489
Net fee and commission income	6	<b>1,050,408</b>	1,271,342
Net income from financial instruments at fair value through profit or loss	7	<b>575,461</b>	719,433
Net gain on disposal of financial investments	8	<b>67,262</b>	345,212
Other income	9	<b>210,723</b>	272,268
Total income		<b>6,340,387</b>	6,942,744
Total expenses	10	<b>(2,843,656)</b>	(3,624,981)
Profit before impairment allowances for credit losses		<b>3,496,731</b>	3,317,763
Impairment allowances for credit losses	11	<b>(631,066)</b>	(1,233,514)
Profit before income tax		<b>2,865,665</b>	2,084,249
Income tax expense	13	<b>(474,213)</b>	(255,368)
Profit attributable to shareholders	14	<b>2,391,452</b>	1,828,881
Dividend	15	<b>–</b>	3,400,000



**DBS BANK (HONG KONG) LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*FOR THE YEAR ENDED 31 DECEMBER 2009*

	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
<b>Profit attributable to shareholders</b>	<b>2,391,452</b>	1,828,881
<b>Other comprehensive income:</b>		
Foreign currency translation differences for foreign operations	(128)	439
Available-for-sale financial investments		
– Net valuation taken to equity	783,365	(274,856)
– Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	15,731	8,313
– Transferred to income statement on sale	(67,316)	(210,474)
– Transferred to income statement due to impairment	–	25,808
– Deferred income tax (charged) / credited to equity	(122,192)	76,125
Transfer of lease premium for land to investment properties		
– Valuation taken to equity	400,861	–
– Deferred income tax charged to equity	(62,584)	–
<b>Other comprehensive income attributable to shareholders, net of tax</b>	<b>947,737</b>	(374,645)
<b>Total comprehensive income attributable to shareholders</b>	<b>3,339,189</b>	1,454,236

**DBS BANK (HONG KONG) LIMITED**

**CONSOLIDATED BALANCE SHEET**

AS AT 31 DECEMBER 2009

	Note	2009 HK\$'000	2008 HK\$'000
<b>Assets</b>			
Cash and balances with banks	16	29,355,036	21,719,787
Placements with and advances to banks		15,564,769	17,124,092
Trading securities	17	2,413,528	3,039,097
Financial assets designated at fair value through profit or loss	18	38,385	25,054
Positive replacement values for derivative financial instruments		3,193,072	2,505,551
Advances to customers less impairment allowances	19	130,678,814	132,384,605
Financial investments	21	36,634,546	33,569,441
Other assets	22	4,783,122	3,408,453
Deferred income tax assets	32(b)	–	138,597
Fixed assets	25	1,625,000	1,178,454
– Investment properties		685,800	138,200
– Other properties and equipment		939,200	1,040,254
Lease premium for land	26	1,769,614	1,936,861
Total assets		<b>226,055,886</b>	<b>217,029,992</b>
<b>Liabilities</b>			
Deposits and balances from banks		2,587,657	1,028,875
Trading liabilities	27	3,678,555	2,926,871
Financial liabilities designated at fair value through profit or loss	28	658,580	4,492,998
Negative replacement values for derivative financial instruments		3,404,705	3,620,044
Deposits from customers	29	181,870,798	176,896,443
Certificates of deposit issued	30	1,552,911	1,838,648
Other liabilities	31	6,050,665	5,670,462
Current income tax liabilities	32(a)	380,162	24,578
Deferred income tax liabilities	32(b)	95,416	–
Amount due to a jointly controlled entity	23	911,732	808,203
Subordinated liability	33	4,187,673	4,185,027
Total liabilities		<b>205,378,854</b>	<b>201,492,149</b>
<b>Equity</b>			
Share capital	34	7,000,000	5,200,000
Reserves	35	13,677,032	10,337,843
Total equity		<b>20,677,032</b>	<b>15,537,843</b>
Total liabilities and equity		<b>226,055,886</b>	<b>217,029,992</b>

**Kwa Chong Seng**  
Director

**Yip Yok Tak, Amy**  
Director

**Wong Kai Yuan, Jeanette**  
Director

**Wong Wai Nar, Doris**  
Secretary

# DBS BANK (HONG KONG) LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 HK\$'000	2008 HK\$'000
<b>Assets</b>			
Cash and balances with banks	16	29,352,427	21,717,366
Placements with and advances to banks		15,564,769	17,124,092
Trading securities	17	2,413,528	3,039,097
Financial assets designated at fair value through profit or loss	18	38,385	25,054
Positive replacement values for derivative financial instruments		3,193,072	2,505,551
Advances to customers less impairment allowances	19	130,705,611	132,408,237
Financial investments	21	36,634,546	33,569,441
Other assets	22	4,779,468	3,407,340
Deferred income tax assets	32(b)	–	139,328
Interest in a jointly controlled entity	23	500	500
Subsidiaries	24	162,768	162,612
Fixed assets	25	1,611,730	1,158,374
– Investment properties		685,800	138,200
– Other properties and equipment		925,930	1,020,174
Lease premium for land	26	1,769,614	1,936,861
<b>Total assets</b>		<b>226,226,418</b>	<b>217,193,853</b>
<b>Liabilities</b>			
Deposits and balances from banks		2,587,657	1,028,875
Trading liabilities	27	3,678,555	2,926,871
Financial liabilities designated at fair value through profit or loss	28	658,580	4,492,998
Negative replacement values for derivative financial instruments		3,404,705	3,620,044
Deposits from customers	29	181,870,798	176,896,443
Certificates of deposit issued	30	1,552,911	1,838,648
Other liabilities	31	5,379,576	5,079,426
Current income tax liabilities	32(a)	378,855	20,695
Deferred income tax liabilities	32(b)	95,780	–
Amount due to a jointly controlled entity	23	1,823,465	1,616,405
Amounts due to subsidiaries	24	231,039	226,163
Subordinated liability	33	4,187,673	4,185,027
<b>Total liabilities</b>		<b>205,849,594</b>	<b>201,931,595</b>
<b>Equity</b>			
Share capital	34	7,000,000	5,200,000
Reserves	35	13,376,824	10,062,258
<b>Total equity</b>		<b>20,376,824</b>	<b>15,262,258</b>
<b>Total liabilities and equity</b>		<b>226,226,418</b>	<b>217,193,853</b>
<b>Kwa Chong Seng</b> <i>Director</i>	<b>Yip Yok Tak, Amy</b> <i>Director</i>		
<b>Wong Kai Yuan, Jeanette</b> <i>Director</i>	<b>Wong Wai Nar, Doris</b> <i>Secretary</i>		

**DBS BANK (HONG KONG) LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*FOR THE YEAR ENDED 31 DECEMBER 2009*

	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
Balance as at 1 January 2008	5,200,000	595,503	2,339,376	9,348,673	17,483,552
Dividend	–	–	–	(3,400,000)	(3,400,000)
Unclaimed dividend forfeited	–	–	–	55	55
Total comprehensive income	–	–	(374,645)	1,828,881	1,454,236
Balance as at 31 December 2008	<b>5,200,000</b>	<b>595,503</b>	<b>1,964,731</b>	<b>7,777,609</b>	<b>15,537,843</b>
Issuance of shares	<b>1,800,000</b>	–	–	–	<b>1,800,000</b>
Transferred to retained earnings on sale of investment properties	–	–	<b>(21,562)</b>	<b>21,562</b>	–
Total comprehensive income	–	–	<b>947,737</b>	<b>2,391,452</b>	<b>3,339,189</b>
Balance as at 31 December 2009	<b><u>7,000,000</u></b>	<b><u>595,503</u></b>	<b><u>2,890,906</u></b>	<b><u>10,190,623</u></b>	<b><u>20,677,032</u></b>

**DBS BANK (HONG KONG) LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 HK\$'000	2008 HK\$'000
<b>Net cash inflow / (outflow) from operating activities</b>	37(a)	<b>499,761</b>	(12,036,639)
<b>Investing activities</b>			
Purchase of fixed assets		<b>(98,024)</b>	(217,197)
Proceeds from disposal of fixed assets and lease premium for land		<b>117,535</b>	261,074
<b>Net cash inflow from investing activities</b>		<b>19,511</b>	43,877
<b>Financing activities</b>			
Dividend paid		–	(3,400,000)
Interest paid for certificates of deposit issued		<b>(68,192)</b>	(31,078)
Interest paid for subordinated liability		<b>(61,287)</b>	(159,919)
Issuance of certificates of deposit	37(b)	–	1,709,112
Redemption of certificates of deposit issued	37(b)	<b>(492,500)</b>	(740,976)
Issuance of shares	37(b)	<b>1,800,000</b>	–
<b>Net cash inflow / (outflow) from financing activities</b>		<b>1,178,021</b>	(2,622,861)
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>1,697,293</b>	(14,615,623)
<b>Cash and cash equivalents as at 1 January</b>		<b>30,104,211</b>	44,719,834
<b>Cash and cash equivalents as at 31 December</b>	37(c)	<b>31,801,504</b>	30,104,211

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 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, 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 6 Shenton Way, DBS Building Tower One, Singapore 068809.

The consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$’000), unless otherwise stated. The consolidated financial statements was approved for issue by the Board of Directors on 26 January 2010.

### 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 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs” is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss and investment properties. In addition, the carrying amounts of assets and liabilities that are designated as hedged items in a fair value hedge are adjusted for fair value changes attributable to the hedged risks.

The preparation of financial statements in conformity with HKFRSs requires management to exercise judgement, use estimates and make assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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.

#### **The adoption of new / revised HKFRSs**

In 2009, the Group has adopted the new / revised standards and interpretations of HKFRSs which are relevant to its operations.

The adoption of the new / revised standards and interpretations did not result in substantial changes to the Group’s accounting policies, which are consistent with those used in the previous financial year except for the following changes:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

HKAS 1 (Revised) prohibits the presentation of items of income and expenses (that is, “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-represented to conform with the revised standard. Since the changes in accounting policy only impacts presentation aspects, there is no impact on the retained earnings.

HKFRS 7 (Amendment) requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

HK(IFRIC)-Int 13 clarifies that loyalty award credits are accounted for as a separate component of the sales transaction in which they are granted. The fair value of consideration received is allocated among the loyalty award credits and other components of the sale based on the fair value of the credits. The revenue allocated to the loyalty award credits will not be recognised at the date of initial sale but will be deferred until the time when the customers utilise the credits. The key impact to the Group is the reclassification between fee and commission income and expenses and there is no net profit or loss impact. The interpretation has been applied retrospectively, which resulted in a decrease in fee and commission income and expenses of HK\$38,112,000 respectively for the year ended 31 December 2008 as set out in Note 6 to the financial statements.

**New and revised HKFRSs (which are relevant to the Group’s operations) issued but not yet effective**

The Group is in the process of making an assessment on the impact of the new / revised HKFRSs and has not early adopted the following new / revised standards and interpretations:

HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKFRS 9	Financial Instruments
HKAS 27	Consolidated and Separate Financial Statements
HKAS 39	Financial Instruments: Recognition and Measurement
Improvements to HKFRS 2008*	
Improvements to HKFRS 2009*	
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

\* Improvements to HKFRS comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual HKFRS. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted.

**(b) Consolidation**

The consolidated financial statements incorporate the financial statements of the Bank, its subsidiaries and its interest in a jointly controlled entity.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 Summary of significant accounting policies (continued)

#### (b) Consolidation (continued)

##### Subsidiaries

Subsidiaries are companies in which the Group has the power to govern the financial and operating policies to obtain benefits from their activities and this is generally accompanied by a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

##### Investment in jointly controlled entities

A jointly controlled entity is an entity which is jointly controlled by the Group together with one or more parties through contractual arrangements.

The investment is accounted for by proportionate consolidation which involves combining the Group's share of jointly controlled entity's income, expenses, assets and liabilities on a line-by-line basis with similar items in the Group's financial statements.

##### Investment cost at Bank level

Investments in subsidiaries and jointly controlled entities are stated at cost less impairment losses in the Bank's balance sheet. On disposal of investments in subsidiaries and jointly controlled entities, the difference between the net proceeds and the carrying amounts of the investments is taken to the income statement.

##### Intra-group transactions

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profits resulting from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in these companies. Losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### (c) Financial instruments

Financial instruments are classified according to the purpose for which the assets were acquired or the liabilities were incurred. Management determines the classification at initial recognition and re-evaluates the designation at every reporting date, with the exception that the designation of financial assets or financial liabilities at fair value through profit or loss is not revocable.

The classification of financial instruments is as follows:

##### (i) Financial instruments at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at initial recognition. Financial assets and financial liabilities are classified as held for trading if it is acquired or incurred principally for the purpose of short term selling or repurchasing.

Financial instruments designated under the fair value option are financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, and which would otherwise be accounted for separately.

Derivatives are also categorised as held for trading unless they are designated as hedging instruments.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(c) Financial instruments (continued)**

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss, available-for-sale; or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Available-for-sale financial investments

Available-for-sale financial investments are non-derivatives financial assets that are either designated in this category or not classified in any other categories. These financial investments are those intended to be held for an indefinite period of time, and may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices.

(iv) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

**Recognition and derecognition**

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets at fair value through profit or loss, available-for-sale financial investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are removed or derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

**Initial measurement**

Financial instruments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issue of the financial liability, except for financial instruments at fair value through profit or loss, for which transaction costs are expensed off immediately.

**Subsequent measurement**

Available-for-sale financial investments and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less impairment allowances. Unquoted investments classified as available-for-sale for which fair values cannot be reliably determined are carried at cost, less impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(c) Financial instruments (continued)**

Realised and unrealised gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are taken to “net income from financial instruments at fair value through profit or loss” in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial investments classified as available-for-sale are recognised in the investments revaluation reserve, except for hedged item as mentioned in Note 2(k). When financial investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the investments revaluation reserve are taken to the income statement.

Other financial liabilities, except for hedged items as mentioned in Note 2(k), are carried at amortised cost using the effective interest method.

**Determination of fair value**

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group are the current bid prices. If the market for a financial asset is not active, the Group establishes the fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer’s specific circumstances. The fair values of financial liabilities are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments.

**(d) Recognition of day one profit or loss**

Where the transaction price is different to the fair value determined using valuation models for which not all inputs are market observable prices or rates, such financial instrument is initially recognised at transaction price, which is the best indicator of fair value. The difference between the transaction price and the model value is not recognised immediately in the income statement. This difference, commonly referred to as “day one profit or loss”, is released to the income statement on the earlier of the following: (i) amortisation over the life of the transaction; (ii) when all the market inputs become observable; or (iii) on derecognition.

**(e) Impairment**

**Financial assets carried at amortised cost**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment allowances are 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(e) Impairment (continued)**

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. The 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.

**Available-for-sale financial investments**

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial investment is impaired. In the case of an equity investment, a significant or prolonged decline in the fair value of security below its cost is considered in determining whether the asset is impaired. When there is objective evidence of an impairment of an available-for-sale financial investment, the cumulative loss – measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from the investments revaluation reserve and recognised in the income statement. Impairment losses recognised in the income statement on the equity investments are not reversed through the income statement, until the equity investment is disposed of. A subsequent recovery in the value of an available-for-sale debt security whose value is impaired is reversed through the income statement if there has been an identifiable event that led to the recovery.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(f) Leases**

(i) Hire purchase contracts and 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 “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. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the lease term. The Group’s interests in leasehold land are also accounted for as operating leases.

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

**(g) Sale and repurchase agreements**

Repurchase agreements (“Repos”) are treated as collateralised borrowing and the amount borrowed is shown as a liability and included in “Deposits from customers” or “Deposits and balances from banks”. The securities sold under repos are treated as pledged assets and remain on the balance sheet at amortised cost or fair value depending on their classification. Reverse repurchase agreements (“Reverse repos”) are treated as collateralised lending and the amount lent is shown as an asset and included in “Advances to customers” or “Placements with and advances to banks”. The difference between the amount received and the amount paid under repos and reverse repos is amortised as interest expense and interest income respectively on an effective interest basis.

**(h) Properties and other fixed assets**

(i) Properties

Properties are stated at cost less accumulated impairment losses and accumulated depreciation. Depreciation is calculated to write off the assets over their estimated useful lives on a straight-line basis as follows:

Freehold land	Not depreciated
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

(ii) 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. Deferred income tax is recognised for the change in fair value of investment properties and charged to the income statement.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(h) Properties and other fixed assets (continued)**

(ii) Investment properties (continued)

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

Land held under an operating lease is classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in properties revaluation reserve under HKAS16. On subsequent disposal of the investment property, the properties revaluation reserve is transferred to retained earnings.

(iii) Furniture, fixtures and equipment

Furniture, fixtures and equipment are stated at cost less accumulated impairment losses and accumulated depreciation. Depreciation on furniture, fixtures and equipment is calculated to write off the assets on a straight-line basis over their estimated useful lives of between 3 and 8 years.

(iv) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that properties, furniture, fixtures and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount (being the higher of the fair value less cost to sell and the value-in-use). Such impairment losses are recognised in the income statement.

(v) Gain or loss on disposal

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

**(i) Lease premium for land**

Leasehold properties held for own use should be split into a lease of land and building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Leasehold land premium that is up-front payment to acquire long-term interest in leasehold land is stated at cost and amortised over the period of the lease.

**(j) Provisions and other liabilities**

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 can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(k) *Derivative financial instruments and hedge accounting***

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are classified as assets when fair value is positive (“positive replacement values”) and as liabilities when fair value is negative (“negative replacement values”).

Changes in the fair value of derivatives other than those designated as fair value hedges, cash flow hedges or hedges of net investments in foreign operations are recognised in “net trading income”.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in “net trading income”.

For derivatives designated as hedging instruments, each entity within the Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, including its risk management objective for undertaking various hedge transactions and methods used to assess effectiveness of the hedge. Each entity within the Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged item.

For a qualifying fair value hedge, the changes in the fair value of the 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 for which the effective interest method is used, is amortised to the income statement over the period to maturity of the hedged item.

**(l) *Offsetting financial instruments***

Certain financial assets and liabilities offset each other and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(m) *Interest income and expense***

Interest income and expenses are recognised on a time-proportionate basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts. No interest expense is accrued on the Group’s structured investment deposits which are carried at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 Summary of significant accounting policies (continued)

#### (n) *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 recognised on the completion of a transaction. For a service that is provided over a period of time, fee and commission income is recognised over the period of which the related service is provided or credit risk is undertaken.

#### (o) *Dividend income*

Dividend income is recognised when the right to receive payment is established and is included in the income statement under "other income".

#### (p) *Employee benefits*

##### (i) Bonus plans

Liabilities for bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

##### (ii) Pension obligations

The Group offers a mandatory provident fund scheme and participates in a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and the Group.

The Group's contributions to the mandatory provident fund scheme and the defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

##### (iii) Share-based compensation

There are a Share Option Plan, a Share Plan and an Employee Share Plan run by DBSH, the ultimate holding company of the Bank. Under the Share Option Plan, share options are granted to eligible staff. Under the Share Plan and the Employee Share Plan, ordinary shares in DBSH are given free of charge to eligible employees subject to DBSH Group meeting prescribed performance targets and / or after the satisfactory completion of time-based service conditions.

These share based payment 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.

#### (q) *Taxation*

Current income tax for current and prior periods is recognised at 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 at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(g) Taxation (continued)**

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted at the balance sheet date are used in the determination of deferred income tax.

Deferred income tax liabilities are generally recognised for all taxable temporary differences. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are credited or charged in the income statement, except when they relate to items credited or charged directly to reserves, in which case the deferred income tax assets and liabilities are also dealt with in the reserves.

**(r) Foreign currencies**

**(i) Functional and presentation currency**

Items in the financial statements of the Bank and each of the Group's subsidiaries are translated using their functional currency, being the currency of the primary economic environment in which the entity operates. The financial statements are presented in Hong Kong dollar, which is the functional and presentation currency of the Bank and the Group.

**(ii) Foreign currency transactions**

Transactions in foreign currencies are translated at foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at foreign exchange rates ruling at that date. Foreign exchange differences arising from translation are recognised in the income statement. Non-monetary assets and liabilities measured at cost in foreign currencies are translated using foreign exchange rates at the dates of the transactions. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated to Hong Kong dollars at foreign exchange rates ruling at the dates the fair value was determined.

**(iii) Foreign operations**

The results and financial positions of the Group's operations whose functional currency is not Hong Kong dollars are translated into Hong Kong dollars in the following manner:

- Assets and liabilities are translated at the exchange rates ruling at the balance sheet date;
- Income and expenses in the income statement are translated at an average exchange rate approximating the exchange rates at the dates of the transactions; and
- All resulting exchange differences are dealt with in the translation reserve

**(s) Financial guarantees**

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period of the financial guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Summary of significant accounting policies (continued)**

**(s) Financial guarantees (continued)**

The exposure to potential losses associated with financial guarantees is monitored periodically. When there is objective evidence indicating probability of losses occurring, a provision is recognised for the financial guarantee.

**(t) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

**(u) 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 treasury bills that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(v) Fiduciary activities**

Assets and income belonging to customers for whom the Group acts in a fiduciary capacity as nominee, trustee or agent, are excluded from the financial statements.

**3 Critical accounting estimates and judgements in applying accounting policies**

The Group makes certain assumptions and estimates in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(a) Impairment allowances**

The Group establishes, through charges against profit, impairment allowances in respect of estimated loss in advances to customers. 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 in order to state it in the balance sheet at its estimated ultimate net realisable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan 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.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 Critical accounting estimates and judgements in applying accounting policies (continued)

#### (a) *Impairment allowances (continued)*

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*

Fair value is defined as the value at which positions could be closed or sold in a transaction with a willing and knowledgeable counterparty. 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, including interest rate yield curves, option volatilities and currency rates. Management exercises judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors used in the valuation process. Judgement may also be applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting fair value estimates.

#### (c) *Income taxes*

When applying the relevant tax rules, there are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. In these circumstances, 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. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### (d) *Provisions*

Judgement is needed to determine if provision for compensation to certain customers who had bought structured investments from the Group should be recorded in accordance with the requirements in HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. In making this judgement, the Group evaluates the likelihood and estimated amount of outflow of resources which will be required to settle the obligation with reference to factors such as historical settlement experience and advice from legal counsel.

### 4 Interest income

	2009 HK\$'000	2008 HK\$'000
Interest income on listed investments	634,705	663,136
Interest income on unlisted investments	710,001	1,206,589
Other interest income	4,338,394	6,658,485
	<u>5,683,100</u>	<u>8,528,210</u>

Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK\$5,633,481,000 (2008: HK\$8,395,430,000).

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5 Interest expense

	2009 HK\$'000	2008 HK\$'000
Interest expense on subordinated liability maturing after five years	56,859	152,781
Other interest expense	1,189,708	4,040,940
	<u>1,246,567</u>	<u>4,193,721</u>

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK\$1,213,185,000 (2008: HK\$4,081,052,000).

### 6 Net fee and commission income

	2009 HK\$'000	As restated 2008 HK\$'000
Fee and commission income	1,483,985	1,637,583
Fee and commission expense	(433,577)	(366,241)
Net fee and commission income	<u>1,050,408</u>	<u>1,271,342</u>
Comprising:		
– Wealth management	193,493	329,244
– Trade and remittances	337,635	389,521
– Credit card	186,766	204,418
– Loan-related	171,023	168,340
– Stock broking	55,074	54,301
– Investment banking	17,239	18,251
– Deposit-related	26,509	30,100
– Guarantees	11,136	13,452
– Others	51,533	63,715
	<u>1,050,408</u>	<u>1,271,342</u>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	790,594	756,664
– Trust or other fiduciary activities	27,597	28,898
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	406,296	353,818

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7 Net income from financial instruments at fair value through profit or loss

	2009 HK\$'000	2008 HK\$'000
Net trading income		
– Foreign exchange	542,121	780,234
– Interest rates, credit and equities	993,003	(476,847)
	<u>1,535,124</u>	<u>303,387</u>
Net (loss) / gain from financial instruments designated at fair value through profit or loss	<u>(959,663)</u>	<u>416,046</u>
	<u><u>575,461</u></u>	<u><u>719,433</u></u>

### 8 Net gain on disposal of financial investments

	2009 HK\$'000	2008 HK\$'000
Debt securities		
– Available-for-sale	67,980	19,446
– Loans and receivables	(5,215)	–
Equity securities	4,497	325,766
	<u>67,262</u>	<u>345,212</u>

### 9 Other income

	2009 HK\$'000	2008 HK\$'000
Fair value adjustment on investment properties (Note 25(a))	28,609	(6,800)
Net gain on disposal of fixed assets and lease premium for land	70,714	201,008
Dividend income from listed investments	636	2,432
Dividend income from unlisted investments	13,748	13,105
Others	97,016	62,523
	<u>210,723</u>	<u>272,268</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 10 Total expenses

	2009 HK\$'000	2008 HK\$'000
Employee benefits		
– Salaries and other short term employee benefits	1,329,507	1,609,305
– Pensions	76,314	80,592
– Share based payments	19,011	14,149
Premises and equipment expenses excluding depreciation		
– Amortisation of lease premium for land (Note 26)	45,417	43,445
– Rental of premises	226,474	211,886
– Others	240,350	260,903
Depreciation (Note 25(a))	173,100	159,798
Auditor's remuneration	8,353	9,198
Computerisation expenses	251,950	269,010
Other operating expenses	473,180	966,695
	<u>2,843,656</u>	<u>3,624,981</u>

### 11 Impairment allowances for credit losses

	2009 HK\$'000	2008 HK\$'000
Impairment allowances for credit losses		
– Individual impairment allowances on advances to customers (Note 20)	715,111	1,020,322
– Collective impairment allowances on advances to customers (Note 20)	(83,364)	186,701
– Impairment allowances on available-for-sale financial investments	(681)	26,491
	<u>631,066</u>	<u>1,233,514</u>
Individual impairment allowances on advances to customers		
– New allowances	1,217,706	1,207,117
– Releases	(487,108)	(169,977)
– Recoveries	(15,487)	(16,818)
	<u>715,111</u>	<u>1,020,322</u>
Collective impairment allowances on advances to customers		
– New allowances	255,242	300,485
– Releases	(313,718)	(78,622)
– Recoveries	(24,888)	(35,162)
	<u>(83,364)</u>	<u>186,701</u>
Impairment allowances on available-for-sale financial investments		
– New allowances	–	26,491
– Releases	(681)	–
	<u>(681)</u>	<u>26,491</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12 Directors' emoluments

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

	2009 HK\$'000	2008 HK\$'000
Fees	1,330	1,120
Salaries, housing and other allowances and benefits in kind	7,935	17,685
Pensions	277	308
	<u>9,542</u>	<u>19,113</u>

### 13 Income tax expense

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

	2009 HK\$'000	2008 HK\$'000
Hong Kong profits tax		
– Current year	418,756	276,314
– Under / (over) provision in prior years	343	(25,375)
Overseas tax		
– Current year	6,909	8,411
– (Over) / under provision in prior years	(1,032)	25
Current income tax	424,976	259,375
Deferred income tax (Note 32(b))	49,237	(4,007)
	<u>474,213</u>	<u>255,368</u>

Hong Kong profits tax has been provided at 16.5% (2008: 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:

	2009 HK\$'000	2008 HK\$'000
Accelerated depreciation allowances	(9)	4,876
Impairment allowances	44,525	(6,295)
Fair value adjustment on investment properties	4,721	(2,588)
	<u>49,237</u>	<u>(4,007)</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13 Income tax expense (continued)

(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% (2008: 16.5%) is as follows:*

	2009 HK\$'000	2008 HK\$'000
Profit before income tax	<u>2,865,665</u>	2,084,249
Tax calculated at tax rate of 16.5% (2008: 16.5%)	472,835	343,901
Effect of different tax rates in other countries	(2,447)	(3,133)
Effect of change in tax rate	–	2,511
Income not subject to tax	(23,551)	(95,123)
Expenses not deductible for tax purposes	27,992	32,538
Overprovision in prior years	(689)	(25,350)
Others	73	24
Income tax expense	<u>474,213</u>	<u>255,368</u>

### 14 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Bank to the extent of HK\$2,366,701,000 (2008: HK\$1,801,226,000).

### 15 Dividend

No dividend was paid for the year ended 31 December 2009 (2008: An interim dividend of HK\$0.6538 per share totalling HK\$3,400,000,000 was paid).

### 16 Cash and balances with banks

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Cash in hand	419,891	504,056	419,891	504,056
Balances with central banks	361,303	227,365	361,303	227,365
Balances with banks	25,922,914	18,437,962	25,920,305	18,435,541
Trade bills	2,650,928	2,550,404	2,650,928	2,550,404
	<u>29,355,036</u>	<u>21,719,787</u>	<u>29,352,427</u>	<u>21,717,366</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17 Trading securities

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Treasury bills	<b>1,119,956</b>	579,711
Other debt securities	<b>1,293,572</b>	2,459,386
	<b><u>2,413,528</u></b>	<u>3,039,097</u>
Of which:		
– Listed in Hong Kong, at fair value	<b>1,071,776</b>	1,847,343
– Listed outside Hong Kong, at fair value	<b>10,960</b>	–
– Unlisted, at fair value	<b>1,330,792</b>	1,191,754
	<b><u>2,413,528</u></b>	<u>3,039,097</u>
Analysed by issuer as follows:		
– Sovereigns	<b>2,319,526</b>	2,946,637
– Public sector entities	<b>3,299</b>	2,645
– Banks	<b>90,703</b>	89,815
	<b><u>2,413,528</u></b>	<u>3,039,097</u>
Analysed by rating agency designation as follows:		
– AA- to AA+	<b>2,311,865</b>	2,949,282
– A- to A+	<b>82,701</b>	81,502
– BBB to BBB+	<b>7,715</b>	8,313
– Unrated	<b>11,247</b>	–
	<b><u>2,413,528</u></b>	<u>3,039,097</u>

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.

### 18 Financial assets designated at fair value through profit or loss

This is a debt security issued by a bank with a rating of BBB under Standard & Poor's rating designation and is listed in Hong Kong.



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 19 Advances to customers less impairment allowances

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Advances to customers	133,222,917	135,007,041	133,222,917	135,007,041
Impairment allowances				
– Individually assessed (Note 20)	(1,848,459)	(1,663,850)	(1,848,459)	(1,663,850)
– Collectively assessed (Note 20)	(695,644)	(958,586)	(668,847)	(934,954)
	<u>130,678,814</u>	<u>132,384,605</u>	<u>130,705,611</u>	<u>132,408,237</u>

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

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Gross investments in finance leases and hire purchase contracts receivables:		
– Not later than one year	1,907,670	2,348,994
– Later than one year and not later than five years	3,180,622	4,018,231
– Later than five years	7,868,927	7,972,703
	<u>12,957,219</u>	<u>14,339,928</u>
Unearned future finance income	(48,268)	(95,995)
	<u>12,908,951</u>	<u>14,243,933</u>
Net investments in finance leases and hire purchase contracts receivables		
	<u>12,908,951</u>	<u>14,243,933</u>
The net investments in finance leases and hire purchase contracts receivables are analysed as follows:		
– Not later than one year	1,877,155	2,293,902
– Later than one year and not later than five years	3,162,889	3,977,424
– Later than five years	7,868,907	7,972,607
	<u>12,908,951</u>	<u>14,243,933</u>

The unguaranteed residual values included in the gross investments in finance leases and hire purchase contracts receivables as at 31 December 2009 and 2008 are considered to be not material.

The individual impairment allowances for finance leases and hire purchase contracts receivables amounted to HK\$177,184,000 as at 31 December 2009 (2008: HK\$140,182,000).

**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**20 Impairment allowances on advances to customers**

	<b>Group</b>		
	<b>Individually assessed HK\$'000</b>	<b>Collectively assessed HK\$'000</b>	<b>Total HK\$'000</b>
As at 1 January 2009	<b>1,663,850</b>	<b>958,586</b>	<b>2,622,436</b>
Amounts written off	<b>(545,081)</b>	<b>(204,466)</b>	<b>(749,547)</b>
Recoveries of advances written off in previous years	<b>15,487</b>	<b>24,888</b>	<b>40,375</b>
Net charge/(credit) to consolidated income statement (Note 11)	<b>715,111</b>	<b>(83,364)</b>	<b>631,747</b>
Exchange differences	<b>(908)</b>	<b>–</b>	<b>(908)</b>
As at 31 December 2009	<b><u>1,848,459</u></b>	<b><u>695,644</u></b>	<b><u>2,544,103</u></b>
As at 1 January 2008	796,094	889,195	1,685,289
Amounts written off	(152,266)	(152,472)	(304,738)
Recoveries of advances written off in previous years	16,818	35,162	51,980
Net charge to consolidated income statement (Note 11)	1,020,322	186,701	1,207,023
Discounting effect released from impairment allowances	(17,115)	–	(17,115)
Exchange differences	(3)	–	(3)
As at 31 December 2008	<b><u>1,663,850</u></b>	<b><u>958,586</u></b>	<b><u>2,622,436</u></b>
	<b>Bank</b>		
	<b>Individually assessed HK\$'000</b>	<b>Collectively assessed HK\$'000</b>	<b>Total HK\$'000</b>
As at 1 January 2009	<b>1,663,850</b>	<b>934,954</b>	<b>2,598,804</b>
Amounts written off	<b>(545,081)</b>	<b>(169,539)</b>	<b>(714,620)</b>
Recoveries of advances written off in previous years	<b>15,487</b>	<b>20,538</b>	<b>36,025</b>
Net charge/(credit) to income statement	<b>715,111</b>	<b>(117,106)</b>	<b>598,005</b>
Exchange differences	<b>(908)</b>	<b>–</b>	<b>(908)</b>
As at 31 December 2009	<b><u>1,848,459</u></b>	<b><u>668,847</u></b>	<b><u>2,517,306</u></b>
As at 1 January 2008	796,094	864,184	1,660,278
Amounts written off	(152,266)	(125,940)	(278,206)
Recoveries of advances written off in previous years	16,818	29,062	45,880
Net charge to income statement	1,020,322	167,648	1,187,970
Discounting effect released from impairment allowances	(17,115)	–	(17,115)
Exchange differences	(3)	–	(3)
As at 31 December 2008	<b><u>1,663,850</u></b>	<b><u>934,954</u></b>	<b><u>2,598,804</u></b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21 Financial investments

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Available-for-sale	<b>31,753,531</b>	27,768,497
Loans and receivables	<b>4,881,015</b>	5,800,944
	<b><u>36,634,546</u></b>	<u>33,569,441</u>

#### (a) *Available-for-sale*

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Treasury bills	<b>1,712,927</b>	3,489,912
Certificates of deposit held	–	963,190
Other debt securities	<b>29,958,278</b>	23,248,631
	<b><u>31,671,205</u></b>	27,701,733
Debt securities	<b>82,326</b>	66,764
Equity securities	<b><u>31,753,531</u></b>	<u>27,768,497</u>
Debt securities		
– Listed in Hong Kong, at fair value	<b>2,629,531</b>	917,004
– Listed outside Hong Kong, at fair value	<b>11,418,791</b>	8,720,598
– Unlisted, at fair value	<b>17,608,761</b>	18,049,810
– Unlisted, at cost	<b>14,122</b>	14,321
	<b><u>31,671,205</u></b>	<u>27,701,733</u>
Equity securities		
– Listed in Hong Kong, at fair value	<b>49,186</b>	35,257
– Unlisted, at fair value	<b>3,766</b>	2,107
– Unlisted, at cost	<b>29,374</b>	29,400
	<b><u>82,326</u></b>	<u>66,764</u>
	<b><u>31,753,531</u></b>	<u>27,768,497</u>
Analysed by issuer as follows:		
– Sovereigns	<b>4,861,420</b>	3,978,431
– Public sector entities	<b>1,155,770</b>	380,141
– Banks	<b>22,722,550</b>	20,877,884
– Corporates	<b>2,999,669</b>	2,517,720
– Others	<b>14,122</b>	14,321
	<b><u>31,753,531</u></b>	<u>27,768,497</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21 Financial investments (continued)

#### (a) Available-for-sale (continued)

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Analysis of debt securities by rating agency designation as follows:		
– AAA	<b>9,651,136</b>	3,439,541
– AA- to AA+	<b>11,402,868</b>	12,557,537
– A- to A+	<b>9,010,977</b>	8,848,700
– BBB to BBB+	<b>1,106,936</b>	2,127,124
– Unrated	<b>499,288</b>	728,831
	<b><u>31,671,205</u></b>	<u>27,701,733</u>

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.

The carrying amount of impaired debt securities as at 31 December 2009 was HK\$880,000 (2008: HK\$198,000). No collateral is held by the Group in respect of the impaired debt securities. Impairment loss of HK\$681,000 was written back to the income statement during the year (2008: impairment loss of HK\$25,808,000 was charged to the income statement). Coupon interest of the impaired debt securities has been overdue for over one year.

#### (b) Loans and receivables

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Debt securities		
– Listed in Hong Kong	<b>184,760</b>	184,471
– Listed outside Hong Kong	<b>612,536</b>	1,243,431
– Unlisted	<b>4,083,719</b>	4,373,042
	<b><u>4,881,015</u></b>	<u>5,800,944</u>
Analysed by issuer as follows:		
– Banks	<b>3,754,065</b>	4,641,419
– Corporates	<b>1,126,950</b>	1,159,525
	<b><u>4,881,015</u></b>	<u>5,800,944</u>
Analysed by rating agency designated as follows:		
– AA- to AA+	<b>986,956</b>	1,722,410
– A- to A+	<b>3,347,214</b>	3,344,512
– BBB to BBB+	<b>546,845</b>	734,022
	<b><u>4,881,015</u></b>	<u>5,800,944</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21 Financial investments (continued)

#### (b) Loans and receivables (continued)

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 2009, the fair value of the above debt securities is HK\$4,954,682,000 (2008: HK\$5,660,712,000).

During 2008, certain debt securities have been reclassified from available-for-sale category to loans and receivables category, interest income and exchange gain recognised in the income statement before the reclassification were HK\$124,474,000 and HK\$96,158,000 respectively. After the reclassification, interest income and exchange gain recognised in the income statement for the year ended 31 December 2009 were HK\$261,295,000 and HK\$339,179,000 (2008: interest income of HK\$98,774,000 and exchange loss of HK\$587,741,000) respectively. Exchange gain or loss arising from these debt securities was managed in conjunction with matched funding where the resulting net exchange gain or loss was insignificant to the income statement.

The fair value gain that would have been recognised in the other comprehensive income if the debt securities had not been reclassified would be HK\$252,442,000 (2008: a loss of HK\$210,406,000).

The above debt securities are neither past due nor impaired.

### 22 Other assets

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Accrued interest receivables	508,630	672,795	508,630	672,795
Acceptance	1,627,735	1,511,568	1,627,735	1,511,568
Other accounts	2,646,757	1,224,090	2,643,103	1,222,977
	<b>4,783,122</b>	<b>3,408,453</b>	<b>4,779,468</b>	<b>3,407,340</b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 23 Interest in a jointly controlled entity

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Unlisted investments, at cost			<u>500</u>	<u>500</u>
Amount due to a jointly controlled entity	<u>911,732</u>	<u>808,203</u>	<u>1,823,465</u>	<u>1,616,405</u>

The Group's interest in the jointly controlled entity is as follows:

	2009 HK\$'000	2008 HK\$'000
Current assets	915,263	809,167
Non-current assets	13,634	20,080
Current liabilities	697,645	617,027
Non-current liabilities	–	731
Share of income	139,901	137,457
Share of expenses	120,139	115,133

Details of the jointly controlled entity are as follows:

<u>Name of company</u>	<u>Country of incorporation</u>	<u>Place of operation</u>	<u>Particulars of issued shares</u>	<u>Interest held</u>	<u>Principal activities</u>
Hutchison DBS Card Limited	British Virgin Islands	Hong Kong	500,000 class A shares of HK\$1 each  500,000 class B shares of HK\$1 each	50%	Provision of credit card services

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24 Subsidiaries

	<b>Bank</b>	
	<b>2009</b> <b>HK\$'000</b>	<b>2008</b> <b>HK\$'000</b>
Unlisted shares, at cost after impairment loss of HK\$2,215,000 (2008: HK\$2,215,000)	<b>145,106</b>	144,979
Amounts due from subsidiaries	<b>17,662</b>	17,633
	<b><u>162,768</u></b>	<u>162,612</u>
Amounts due to subsidiaries	<b><u>231,039</u></b>	<u>226,163</u>

During the year, the subsidiaries have maintained deposit accounts with the Bank under its normal course of business. The other amounts due from / to subsidiaries are repayable on demand and interest free.

Details of the principal subsidiaries which are wholly and directly owned by the Bank are as follows:

<u>Name of company</u>	<u>Place of operation and incorporation</u>	<u>Particulars of issued share capital</u>	<u>Principal activities</u>
DBS Corporate Services (Hong Kong) Limited	Hong Kong	500,000 shares of HK\$1 each	Provision of corporate services
Ting Hong Nominees Limited	Hong Kong	10,000 shares of HK\$1 each	Provision of nominee, trustee and agency services
Overseas Trust Bank Nominees Limited	Hong Kong	50,000 shares of HK\$1 each	Provision of nominee services
DBS Trustee H.K. (Jersey) Limited	Jersey	100,000 shares of £1 each	Provision of trustee and trust administration services

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25 Fixed assets

#### (a) Fixed assets movements

##### Group

	Freehold properties HK\$'000	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1 January 2009	22,967	645,022	961,522	1,629,511	138,200	1,767,711
Additions	–	–	150,741	150,741	6	150,747
Disposals	–	(17,445)	(53,558)	(71,003)	(28,754)	(99,757)
Elimination of accumulated depreciation upon transfer to investment properties	–	(53,883)	–	(53,883)	–	(53,883)
Transfer from buildings to investment properties	–	(42,977)	–	(42,977)	42,977	–
Transfer from lease premium for land to investment properties (Note 26)	–	–	–	–	504,762	504,762
Fair value adjustment	–	–	–	–	28,609	28,609
As at 31 December 2009	22,967	530,717	1,058,705	1,612,389	685,800	2,298,189
Accumulated depreciation and impairment						
As at 1 January 2009	16,710	255,702	316,845	589,257	–	589,257
Charge for the year	90	22,914	150,096	173,100	–	173,100
Disposals	–	(14,266)	(21,019)	(35,285)	–	(35,285)
Elimination of accumulated depreciation upon transfer to investment properties	–	(53,883)	–	(53,883)	–	(53,883)
As at 31 December 2009	16,800	210,467	445,922	673,189	–	673,189
Net book value						
As at 31 December 2009	<u>6,167</u>	<u>320,250</u>	<u>612,783</u>	<u>939,200</u>	<u>685,800</u>	<u>1,625,000</u>
The analysis of cost or valuation of the above assets as at 31 December 2009 is as follows:						
At cost	22,967	530,717	1,058,705	1,612,389	–	1,612,389
At valuation	–	–	–	–	685,800	685,800
	<u>22,967</u>	<u>530,717</u>	<u>1,058,705</u>	<u>1,612,389</u>	<u>685,800</u>	<u>2,298,189</u>

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates. The fair value represents the estimated amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.



**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**25 Fixed assets (continued)**

**(a) Fixed assets movements (continued)**

**Group**

	Freehold properties HK\$'000	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1 January 2008	23,413	717,613	1,220,520	1,961,546	145,000	2,106,546
Additions	–	5,606	295,706	301,312	–	301,312
Disposals	(446)	(78,197)	(554,704)	(633,347)	–	(633,347)
Fair value adjustment	–	–	–	–	(6,800)	(6,800)
As at 31 December 2008	<u>22,967</u>	<u>645,022</u>	<u>961,522</u>	<u>1,629,511</u>	<u>138,200</u>	<u>1,767,711</u>
Accumulated depreciation and impairment						
As at 1 January 2008	17,044	299,785	589,229	906,058	–	906,058
Charge for the year	96	32,379	127,323	159,798	–	159,798
Disposals	(430)	(76,462)	(399,707)	(476,599)	–	(476,599)
As at 31 December 2008	<u>16,710</u>	<u>255,702</u>	<u>316,845</u>	<u>589,257</u>	<u>–</u>	<u>589,257</u>
Net book value						
As at 31 December 2008	<u>6,257</u>	<u>389,320</u>	<u>644,677</u>	<u>1,040,254</u>	<u>138,200</u>	<u>1,178,454</u>
The analysis of cost or valuation of the above assets as at 31 December 2008 is as follows:						
At cost	22,967	645,022	961,522	1,629,511	–	1,629,511
At valuation	–	–	–	–	138,200	138,200
	<u>22,967</u>	<u>645,022</u>	<u>961,522</u>	<u>1,629,511</u>	<u>138,200</u>	<u>1,767,711</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25 Fixed assets (continued)

#### (a) Fixed assets movements (continued)

##### Bank

	Freehold properties HK\$'000	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1 January 2009	22,967	645,022	923,571	1,591,560	138,200	1,729,760
Additions	–	–	150,301	150,301	6	150,307
Disposals	–	(17,445)	(51,413)	(68,858)	(28,754)	(97,612)
Elimination of accumulated depreciation upon transfer to investment properties	–	(53,883)	–	(53,883)	–	(53,883)
Transfer from buildings to investment properties	–	(42,977)	–	(42,977)	42,977	–
Transfer from lease premium for land to investment properties (Note 26)	–	–	–	–	504,762	504,762
Fair value adjustment	–	–	–	–	28,609	28,609
As at 31 December 2009	22,967	530,717	1,022,459	1,576,143	685,800	2,261,943
Accumulated depreciation and impairment						
As at 1 January 2009	16,710	255,702	298,974	571,386	–	571,386
Charge for the year	90	22,914	143,027	166,031	–	166,031
Disposals	–	(14,266)	(19,055)	(33,321)	–	(33,321)
Elimination of accumulated depreciation upon transfer to investment properties	–	(53,883)	–	(53,883)	–	(53,883)
As at 31 December 2009	16,800	210,467	422,946	650,213	–	650,213
Net book value						
As at 31 December 2009	<u>6,167</u>	<u>320,250</u>	<u>599,513</u>	<u>925,930</u>	<u>685,800</u>	<u>1,611,730</u>
The analysis of cost or valuation of the above assets as at 31 December 2009 is as follows:						
At cost	22,967	530,717	1,022,459	1,576,143	–	1,576,143
At valuation	–	–	–	–	685,800	685,800
	<u>22,967</u>	<u>530,717</u>	<u>1,022,459</u>	<u>1,576,143</u>	<u>685,800</u>	<u>2,261,943</u>

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates. The fair value represents the estimated amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25 Fixed assets (continued)

#### (a) Fixed assets movements (continued)

##### Bank

	Freehold properties HK\$'000	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Subtotal HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation						
As at 1 January 2008	23,413	717,613	1,181,943	1,922,969	145,000	2,067,969
Additions	–	5,606	295,148	300,754	–	300,754
Disposals	(446)	(78,197)	(553,520)	(632,163)	–	(632,163)
Fair value adjustment	–	–	–	–	(6,800)	(6,800)
As at 31 December 2008	22,967	645,022	923,571	1,591,560	138,200	1,729,760
Accumulated depreciation and impairment						
As at 1 January 2008	17,044	299,785	578,204	895,033	–	895,033
Charge for the year	96	32,379	120,477	152,952	–	152,952
Disposals	(430)	(76,462)	(399,707)	(476,599)	–	(476,599)
As at 31 December 2008	16,710	255,702	298,974	571,386	–	571,386
Net book value						
As at 31 December 2008	6,257	389,320	624,597	1,020,174	138,200	1,158,374
The analysis of cost or valuation of the above assets as at 31 December 2008 is as follows:						
At cost	22,967	645,022	923,571	1,591,560	–	1,591,560
At valuation	–	–	–	–	138,200	138,200
	22,967	645,022	923,571	1,591,560	138,200	1,729,760

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25 Fixed assets (continued)

#### (b) Operating lease arrangements

As at 31 December, the net book values of the investment properties held by the Group and the Bank are analysed as follows:

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
In Hong Kong held on:		
– Leases of over 50 years	<b>631,300</b>	138,200
– Leases of between 10 to 50 years	<b>54,500</b>	–
	<b>685,800</b>	138,200

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to five years, and may contain an option to renew the lease after that date at which time all terms will be renegotiated. None of the leases include contingent rentals.

During the year, HK\$9,763,000 (2008: HK\$5,918,000) was recognised as rental income in the income statement in respect of the operating leases.

As at 31 December, the Group and the Bank had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>15,808</b>	5,964
Later than one year and not later than five years	<b>17,497</b>	4,477
	<b>33,305</b>	10,441

### 26 Lease premium for land

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Net book value as at 1 January	<b>1,936,861</b>	2,032,933
Disposals	<b>(17,929)</b>	(52,627)
Amortisation (Note 10)	<b>(45,417)</b>	(43,445)
Surplus on revaluation of land upon transfer to investment properties (Note 35(b))	<b>400,861</b>	–
Transferred to investment properties (Note 25(a))	<b>(504,762)</b>	–
Net book value as at 31 December	<b>1,769,614</b>	1,936,861

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26 Lease premium for land (continued)

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
In Hong Kong held on:		
– Leases of over 50 years	<b>192,385</b>	279,581
– Leases of between 10 to 50 years	<b>1,577,229</b>	1,657,280
	<b><u>1,769,614</u></b>	<u>1,936,861</u>

### 27 Trading liabilities

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Short positions in securities	<b><u>3,678,555</u></b>	<u>2,926,871</u>

### 28 Financial liabilities designated at fair value through profit or loss

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Financial liabilities designated at fair value through profit or loss		
– Structured investment deposits (Note 29)	<b>658,580</b>	4,190,380
– Certificates of deposit issued (Note 30)	–	302,618
	<b><u>658,580</u></b>	<u>4,492,998</u>

Changes in fair value arising from changes in credit risks 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. Change in fair value arising from change in credit risks is considered not significant. Net unrealised gain for the financial liabilities designated at fair value through profit or loss amounted to HK\$135,603,000 as at 31 December 2009 (2008: HK\$1,043,311,000).

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 29 Deposits from customers

	<b>Group and Bank</b>	
	<b>2009</b> HK\$'000	2008 HK\$'000
Deposits from customers		
– As stated in the balance sheets	<b>181,870,798</b>	176,896,443
– Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 28)	<b>658,580</b>	4,190,380
	<b><u>182,529,378</u></b>	<b><u>181,086,823</u></b>
Analysed by:		
– Demand deposits and current accounts	<b>16,410,816</b>	11,646,608
– Savings deposits	<b>70,510,350</b>	43,250,773
– Time, call and notice deposits	<b>95,608,212</b>	126,189,442
	<b><u>182,529,378</u></b>	<b><u>181,086,823</u></b>

### 30 Certificates of deposit issued

	<b>Group and Bank</b>	
	<b>2009</b> HK\$'000	2008 HK\$'000
Certificates of deposit issued		
– at amortised cost	<b>499,309</b>	505,720
– adjusted for fair value changes under fair value hedge	<b>1,053,602</b>	1,332,928
As stated in the balance sheets	<b>1,552,911</b>	1,838,648
Reported as financial liabilities designated at fair value through profit or loss (Note 28)	–	302,618
	<b><u>1,552,911</u></b>	<b><u>2,141,266</u></b>

### 31 Other liabilities

	<b>Group</b>		<b>Bank</b>	
	<b>2009</b> HK\$'000	2008 HK\$'000	<b>2009</b> HK\$'000	2008 HK\$'000
Accrued interest payable	<b>160,753</b>	403,149	<b>155,770</b>	393,977
Short positions in securities	<b>475,980</b>	–	<b>475,980</b>	–
Acceptance	<b>1,627,735</b>	1,511,568	<b>1,627,735</b>	1,511,568
Other liabilities and provisions	<b>3,786,197</b>	3,755,745	<b>3,120,091</b>	3,173,881
	<b><u>6,050,665</u></b>	<b><u>5,670,462</u></b>	<b><u>5,379,576</u></b>	<b><u>5,079,426</u></b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32 Taxation

#### (a) Current income tax liabilities

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Hong Kong profits tax payable	373,250	15,906	372,155	12,462
Overseas tax payable	6,912	8,672	6,700	8,233
	<b>380,162</b>	<b>24,578</b>	<b>378,855</b>	<b>20,695</b>

#### (b) Deferred income tax

The movements on the deferred income tax (liabilities) / assets are as follows:

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
As at 1 January	138,597	58,465	139,328	60,468
Deferred income tax (charged) / credited to income statement (Note 13(a))	(49,237)	4,007	(50,332)	2,735
Deferred income tax (charged) / credited to equity	(184,776)	76,125	(184,776)	76,125
As at 31 December	<b>(95,416)</b>	<b>138,597</b>	<b>(95,780)</b>	<b>139,328</b>

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

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Deferred income tax assets				
Impairment allowances	102,629	147,154	100,087	144,659
Revaluation of financial investments	–	90,641	–	90,641
	<b>102,629</b>	<b>237,795</b>	<b>100,087</b>	<b>235,300</b>
Deferred income tax liabilities				
Accelerated depreciation allowances	76,128	76,137	73,950	72,911
Fair value adjustment on investment properties	27,782	23,061	27,782	23,061
Revaluation of properties	62,584	–	62,584	–
Revaluation of financial investments	31,551	–	31,551	–
	<b>198,045</b>	<b>99,198</b>	<b>195,867</b>	<b>95,972</b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32 Taxation (continued)

#### (b) *Deferred income tax (continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of 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 balance sheet:

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Deferred income tax assets	102,629	237,795	100,087	235,300
Deferred income tax liabilities	(198,045)	(99,198)	(195,867)	(95,972)
	<u>(95,416)</u>	<u>138,597</u>	<u>(95,780)</u>	<u>139,328</u>

### 33 Subordinated liability

The subordinated loan ("Loan") with principal amount of US\$540,000,000 was obtained by the Bank from its intermediate holding company, DBS Bank Ltd., on 12 December 2006. The Loan will mature on 12 December 2016 with an optional repayment date on 13 December 2011. Interest is payable quarterly and is charged at USD 3-month LIBOR plus 0.35% per annum before the optional repayment date and subsequently at USD 3-month LIBOR plus 0.85%.

### 34 Share capital

	2009 HK\$'000	2008 HK\$'000
Authorised		
As at 1 January		
5,200,000,000 ordinary shares of HK\$1 each	5,200,000	5,200,000
Increase of 6,800,000,000 ordinary shares	6,800,000	–
As at 31 December		
12,000,000,000 (2008: 5,200,000,000) ordinary shares of HK\$1 each	<u>12,000,000</u>	<u>5,200,000</u>
Issued and fully paid		
As at 1 January		
5,200,000,000 ordinary shares of HK\$1 each	5,200,000	5,200,000
Issue and allotment of 1,800,000,000 ordinary shares	1,800,000	–
As at 31 December		
7,000,000,000 (2008: 5,200,000,000) ordinary shares of HK\$1 each	<u>7,000,000</u>	<u>5,200,000</u>



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 34 Share capital (continued)

A members' resolution was passed on 8 January 2009 to increase the Bank's authorised share capital from HK\$5,200,000,000 to HK\$12,000,000,000 by the creation of an additional 6,800,000,000 ordinary shares of HK\$1 each, ranking pari passu with the existing ordinary shares of the Bank in all respects. Pursuant to the allotment mandate granted by the members, a board resolution was passed on 8 January 2009 to approve an allotment of 1,800,000,000 shares of HK\$1 each at par to its immediate holding company, DHB Limited. The 1,800,000,000 shares were issued and allotted on 20 January 2009 and the issued and paid up share capital of the Bank was increased from HK\$5,200,000,000 to HK\$7,000,000,000.

### 35 Reserves

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>(a) Share premium</b>				
As at 1 January and 31 December	<b>595,503</b>	595,503	<b>595,503</b>	595,503
<b>(b) Other reserves</b>				
(i) Capital reserve				
As at 1 January and 31 December	<b>11,636</b>	11,636	–	–
(ii) Investments revaluation reserve arising from available-for-sale financial investments				
As at 1 January	<b>(445,829)</b>	(70,745)	<b>(445,829)</b>	(70,745)
Net valuation taken to equity	<b>783,365</b>	(274,856)	<b>783,365</b>	(274,856)
Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	<b>15,731</b>	8,313	<b>15,731</b>	8,313
Transferred to income statement on sale	<b>(67,316)</b>	(210,474)	<b>(67,316)</b>	(210,474)
Transferred to income statement due to impairment	–	25,808	–	25,808
Deferred income tax charged to equity	<b>(122,192)</b>	76,125	<b>(122,192)</b>	76,125
As at 31 December	<b>163,759</b>	(445,829)	<b>163,759</b>	(445,829)
(iii) Properties revaluation reserve				
As at 1 January	–	–	–	–
Valuation taken to equity (Note 26)	<b>400,861</b>	–	<b>400,861</b>	–
Transferred to retained earnings on sale of investment properties	<b>(21,562)</b>	–	<b>(21,562)</b>	–
Deferred income tax charged to equity	<b>(62,584)</b>	–	<b>(62,584)</b>	–
As at 31 December	<b>316,715</b>	–	<b>316,715</b>	–

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 35 Reserves (continued)

#### (b) Other reserves (continued)

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
(iv) General reserve As at 1 January and 31 December	<b>2,398,792</b>	2,398,792	<b>2,283,928</b>	2,283,928
(v) Translation reserve As at 1 January	<b>132</b>	(307)	–	–
Foreign currency translation differences for foreign operations	<b>(128)</b>	439	–	–
As at 31 December	<b>4</b>	132	–	–
<b>Total other reserves</b>	<b><u>2,890,906</u></b>	<u>1,964,731</u>	<b><u>2,764,402</u></b>	<u>1,838,099</u>

#### (c) Retained earnings

As at 1 January	<b>7,777,609</b>	9,348,673	<b>7,628,656</b>	9,227,375
Profit attributable to shareholders	<b>2,391,452</b>	1,828,881	<b>2,366,701</b>	1,801,226
Transferred from properties revaluation reserve on sale of investment properties	<b>21,562</b>	–	<b>21,562</b>	–
Dividend (Note 15)	–	(3,400,000)	–	(3,400,000)
Unclaimed dividend forfeited	–	55	–	55
As at 31 December	<b><u>10,190,623</u></b>	<u>7,777,609</u>	<b><u>10,016,919</u></b>	<u>7,628,656</u>
<b>Total reserves</b>	<b><u>13,677,032</u></b>	<u>10,337,843</u>	<b><u>13,376,824</u></b>	<u>10,062,258</u>

The revaluation reserves arising from available-for-sale financial investments and properties do not represent realised profits and is not available for distribution.

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

As at 31 December 2009, HK\$668,872,000 (2008: HK\$416,822,000) was earmarked as the regulatory reserve from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**36 Fair value measurement**

**(a) 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 except for financial investments – loans and receivables as shown below. The bases of arriving at their fair values are as follows:

(i) Placements with and advances to 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) Advances to customers

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

(iii) Financial investments – loans and receivables

The estimated fair value of financial investments – loans and receivables is based on discounted cash flows using the prevailing market interest rates with similar remaining maturity. Their fair values are set out in Note 21(b).

(iv) Deposits from banks and 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 fixed interest-bearing deposits and other borrowings 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.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 36 Fair value measurement (continued)

#### (b) Fair value of financial assets and liabilities carried at fair value

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) quoted prices (unadjusted) in an active market for identical assets or liabilities (Level 1);
- (ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value as at 31 December 2009:

	Group and Bank			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
Trading securities	299,760	2,113,768	–	2,413,528
Financial assets designated at fair value through profit or loss	–	38,385	–	38,385
Positive replacement values for derivative financial instruments	20,140	3,172,932	–	3,193,072
Available-for-sale financial investments				
– Debt securities	426,018	30,898,426	332,639	31,657,083
– Equity securities	49,186	3,766	–	52,952
<b>Liabilities</b>				
Trading liabilities	–	3,678,555	–	3,678,555
Financial liabilities designated at fair value through profit or loss	–	658,580	–	658,580
Negative replacement values for derivative financial instruments	613	3,404,092	–	3,404,705
Certificates of deposit issued	–	1,053,602	–	1,053,602

Financial instruments that are valued using quoted prices in active markets are classified in Level 1 of the valuation hierarchy. These would include highly liquid government and sovereign securities and active listed equities. Derivatives contracts which are traded in an active exchange market are also classified within 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 then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. Where such inputs are observable or can be corroborated by observable market data, these instruments are then classified as level 2. These would include corporate debt securities and most of the Group's over-the-counter ("OTC") derivatives.

Financial instruments are considered Level 3 when at least one input to a valuation technique or model is unobservable. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

Securities traded over the counter are valued using broker, dealer quotes or any other approved sources. The Group may also use valuation models or discounted cash flow technique to determine the fair value.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 36 Fair value measurement (continued)

#### (b) Fair value of financial assets and liabilities carried at fair value (continued)

Most of the OTC derivatives are priced using valuation models. Where derivative products have been established in the markets for some time, the Group uses models that are widely accepted by the industry. The valuation techniques and inputs used generally depend on the contractual terms and the risks inherent in the instrument as well as the availability of pricing information in the market. Principal techniques used include discounted cash flows, Black Scholes and other appropriate valuation models. OTC derivatives which are valued using unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities are classified under Level 3.

The following table presents the changes in Level 3 instruments for the financial year ended 31 December 2009:

	Group and Bank							Closing balance HK\$'000	
	Opening balance HK\$'000	Gains or losses			Purchases HK\$'000	Settlement HK\$'000	Transfer into Level 3 HK\$'000		Transfer out of Level 3 HK\$'000
		Profit or loss HK\$'000	Other comprehensive income HK\$'000						
<b>Assets</b>									
Trading securities	27,212	-	-	-	-	-	(27,212)	-	
Available-for-sale financial investments									
– Debt securities	3,170,343	-	(20,836)	155,099	(1,270,215)	74,388	(1,776,140)	332,639	
<b>Liabilities</b>									
Financial liabilities designated at fair value through profit or loss	(14,072)	-	-	-	-	-	14,072	-	
	<u>3,183,483</u>	<u>-</u>	<u>(20,836)</u>	<u>155,099</u>	<u>(1,270,215)</u>	<u>74,388</u>	<u>(1,789,280)</u>	<u>332,639</u>	

The Group classifies financial instruments in Level 3 when there is reliance on at least one unobservable input to the valuation model attributing to a significant contribution to the instrument value. Economic hedges entered into for Level 2 exposures may be classified within a different category (i.e. Level 1) and similarly, hedges entered for Level 3 exposures may also be classified within a different category (i.e. Level 1 and/or 2). The effects are presented gross in the table.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 37 Notes to consolidated cash flow statement

#### (a) Reconciliation of profit before income tax to net cash inflow / (outflow) from operating activities

	2009 HK\$'000	2008 HK\$'000
Profit before income tax	2,865,665	2,084,249
Net gain on disposal of fixed assets and lease premium for land	(70,714)	(201,008)
Fair value adjustment on investment properties	(28,609)	6,800
Impairment allowances for credit losses	631,066	1,233,514
Discounting effect released from impairment allowances	–	(17,115)
Write-off of fixed assets	8,811	106,495
Depreciation	173,100	159,798
Amortisation of lease premium for land	45,417	43,445
Advances written off net of recoveries	(709,172)	(252,758)
Revaluation for certificates of deposit issued	(93,870)	124,185
Amortisation of discount on certificates of deposit issued	106	80
Interest expense for certificates of deposit issued	64,184	38,525
Interest expense for subordinated liability	56,859	152,781
	<hr/>	<hr/>
Profit before changes in operating assets and liabilities	2,942,843	3,478,991
Net (increase) / decrease in cash and balances with banks	(2,303,174)	706,281
Net (increase) / decrease in placements with and advances to banks	(1,489,970)	2,638,475
Net decrease in trading securities	545,072	1,627,880
Net increase in financial assets designated at fair value through profit or loss	(13,331)	(25,054)
Net decrease / (increase) in advances to customers	1,784,124	(10,909,448)
Net (increase) / decrease in financial investments	(2,838,317)	2,292,893
Net (increase) / decrease in other assets and positive replacement values for derivative financial instruments	(2,061,509)	3,094,106
Net increase in deposits and balances from banks	1,558,782	224,107
Net increase / (decrease) in trading liabilities	751,684	(4,593,008)
Net increase / (decrease) in deposits from customers	1,442,555	(6,539,837)
Net increase in amount due to a jointly controlled entity	103,529	87,437
Net increase / (decrease) in other liabilities and negative replacement values for derivative financial instruments	145,644	(3,516,781)
Exchange differences and other adjustments	1,221	(29,591)
	<hr/>	<hr/>
Cash inflow / (outflow) from operating activities before income tax	569,153	(11,463,549)
Hong Kong profits tax paid	(61,755)	(562,988)
Overseas tax paid	(7,637)	(12,172)
Hong Kong profits tax refunded	–	2,070
	<hr/>	<hr/>
Net cash inflow / (outflow) from operating activities	<u>499,761</u>	<u>(12,036,639)</u>

**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**37 Notes to consolidated cash flow statement (continued)**

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

	Share capital and share premium HK\$'000	Certificates of deposit issued HK\$'000	Subordinated liability HK\$'000
Balance as at 1 January 2008	5,795,503	1,048,919	4,212,621
Cash inflow from financing activities	–	1,709,112	–
Cash outflow from financing activities	–	(740,976)	–
Revaluation	–	124,185	–
Amortisation of discount	–	80	–
Exchange differences and other adjustments	–	(54)	(27,594)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2008	<b>5,795,503</b>	<b>2,141,266</b>	<b>4,185,027</b>
Cash inflow from financing activities	<b>1,800,000</b>	–	–
Cash outflow from financing activities	–	<b>(492,500)</b>	–
Revaluation	–	<b>(93,870)</b>	–
Amortisation of discount	–	<b>106</b>	–
Exchange differences and other adjustments	–	<b>(2,091)</b>	<b>2,646</b>
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2009	<b><u>7,595,503</u></b>	<b><u>1,552,911</u></b>	<b><u>4,187,673</u></b>

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

	2009 HK\$'000	2008 HK\$'000
Cash and balances with banks repayable with original maturity within three months	<b>24,113,955</b>	18,781,880
Placements with and advances to banks repayable with original maturity within three months	<b>7,198,260</b>	10,247,553
Treasury bills repayable with original maturity within three months	<b>489,289</b>	1,074,778
	<hr/>	<hr/>
	<b><u>31,801,504</u></b>	<b><u>30,104,211</u></b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 38 Derivative financial instruments and hedging activities

#### (a) Derivatives

The Group uses financial instruments 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:

	Group and Bank			
	Contract/ notional amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive replacement value HK\$'000	Negative replacement value HK\$'000
<b>2009</b>				
<b>Derivatives held for trading</b>				
Exchange rate contracts				
– Forwards	52,187,441	696,256	939,428	912,912
– Swaps	45,902,898	83,951	118,037	56,840
– Options purchased	79,610,192	1,787,539	1,265,572	–
– Options written	79,994,841	–	–	1,258,606
	<u>257,695,372</u>	<u>2,567,746</u>	<u>2,323,037</u>	<u>2,228,358</u>
Interest rate contracts				
– Futures	8,204,738	–	20,140	613
– Swaps	60,201,062	257,195	795,601	668,737
– Options purchased	181,135	573	386	–
– Options written	181,135	–	–	386
	<u>68,768,070</u>	<u>257,768</u>	<u>816,127</u>	<u>669,736</u>
Equity contracts	<u>2,522,322</u>	<u>8,927</u>	<u>147,392</u>	<u>147,392</u>
Credit derivative contracts	<u>763,863</u>	<u>–</u>	<u>1,825</u>	<u>68,751</u>
Total derivatives held for trading	<u><u>329,749,627</u></u>	<u><u>2,834,441</u></u>	<u><u>3,288,381</u></u>	<u><u>3,114,237</u></u>
<b>Derivatives designated and qualified as fair value hedges</b>				
Interest rate contracts				
– Swaps	<u>4,580,777</u>	<u>16,977</u>	<u>43,604</u>	<u>293,991</u>



**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**38 Derivative financial instruments and hedging activities (continued)**

**(a) Derivatives (continued)**

2008	Group and Bank			
	Contract/ notional amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive replacement value HK\$'000	Negative replacement value HK\$'000
Derivatives held for trading				
Exchange rate contracts				
– Forwards	74,550,994	532,755	333,554	270,547
– Swaps	65,805,627	196,195	351,564	243,703
– Options purchased	109,887,175	1,422,476	496,069	–
– Options written	109,528,812	–	–	494,524
	<u>359,772,608</u>	<u>2,151,426</u>	<u>1,181,187</u>	<u>1,008,774</u>
Interest rate contracts				
– Futures	2,173,863	–	4,264	8,423
– Swaps	61,075,909	397,421	1,114,496	1,088,344
– Options purchased	748,869	687	10,002	–
– Options written	748,869	–	–	10,002
	<u>64,747,510</u>	<u>398,108</u>	<u>1,128,762</u>	<u>1,106,769</u>
Equity contracts	<u>7,992,236</u>	<u>142,239</u>	<u>1,175,565</u>	<u>1,175,565</u>
Credit derivative contracts	<u>852,505</u>	<u>–</u>	<u>16,382</u>	<u>4,495</u>
Total derivatives held for trading	<u>433,364,859</u>	<u>2,691,773</u>	<u>3,501,896</u>	<u>3,295,603</u>

**Derivatives designated and qualified as fair value hedges**

Interest rate contracts				
– Swaps	<u>4,336,213</u>	<u>34,914</u>	<u>130,140</u>	<u>383,492</u>

The above tables include derivatives and embedded derivatives. The amounts are shown on a gross basis and do not take into account the effect of bilateral netting arrangements. The positive and negative replacement values of embedded derivatives included in above amounted to HK\$138,913,000 and HK\$3,523,000 respectively (2008: HK\$1,126,485,000 and HK\$59,051,000 respectively). The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk.

The credit risk-weighted amounts as at 31 December 2009 and 2008 are the amounts which have been calculated in accordance with the Banking (Capital) Rules.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 38 Derivative financial instruments and hedging activities (continued)

#### (b) Hedging activities

As at 31 December 2009, the Group has interest rate swap agreements in place with a notional amount of HK\$4,580,777,000 (2008: HK\$4,336,213,000) to hedge the exposure arising from changes in the fair value as a result of market interest rate fluctuation of certain available-for-sale 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\$48,788,000 (2008: losses of HK\$241,645,000). The gains on the hedged items attributable to the hedged risk are HK\$48,890,000 (2008: gains of HK\$243,887,000).

### 39 Contingent liabilities and commitments

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

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Direct credit substitutes	992,697	1,193,846
Transaction-related contingencies	675,526	776,339
Trade-related contingencies	6,002,650	5,093,182
Forward deposits placed	17,099,888	12,941,296
Other commitments with an original maturity of not more than one year	2,762,824	1,460,137
Other commitments with an original maturity of more than one year	29,141	60,262
Other commitments which are unconditionally cancellable	93,603,307	94,494,846
	<u>121,166,033</u>	<u>116,019,908</u>
Credit risk-weighted amount	<u>10,499,958</u>	<u>4,846,801</u>

In November 2002, the Group entered into a ten-year outsourcing agreement with IBM 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 IBM could require the Group to pay a penalty on early termination of the contract. The exact amount of penalty 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.

The Group has certain contingent liabilities in relation to compensation to certain customers who had bought structured investments from the Group. The Group has applied the requirements under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. At this stage, it is not practicable to provide an estimate of the financial effect of this contingent liability.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 40 Capital and lease commitments

#### (a) Capital commitments

Capital commitments outstanding at the balance sheet date but not yet incurred are as follows:

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Expenditure contracted but not provided for	58,977	161,412	58,723	159,027
Expenditure authorised but not contracted for	80,238	36,464	80,238	35,629
	<b>139,215</b>	<b>197,876</b>	<b>138,961</b>	<b>194,656</b>

Capital commitments relating to the jointly controlled entity were HK\$254,000 (2008: HK\$3,220,000).

#### (b) Lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group and Bank			
	2009		2008	
	Properties HK\$'000	Others HK\$'000	Properties HK\$'000	Others HK\$'000
Within 1 year	169,554	9,247	193,180	10,786
After 1 year but within 5 years	335,235	4,906	357,816	8,431
Over 5 years	239,090	–	301,541	–
	<b>743,879</b>	<b>14,153</b>	<b>852,537</b>	<b>19,217</b>

### 41 Assets pledged as security

The Group has liabilities secured by assets deposited with central depositories to facilitate settlement operations. The aggregate amount of secured liabilities and the nature and carrying amounts of the assets pledged as security are as follows:

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Secured liabilities – short positions in securities (Notes 27 and 31)	<b>4,154,535</b>	<b>2,926,871</b>
Assets pledged as security		
– Treasury bills	2,927,987	641,205
– Other securities	1,249,337	2,317,871
	<b>4,177,324</b>	<b>2,959,076</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management**

**Risk governance**

Under the Group's risk governance framework, the Board of Directors, through the Board Risk Management Committee, oversees the establishment of robust enterprise-wide risk management policies and processes. Where necessary, the Group sets risk appetite limits to guide risk-taking.

Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to the risk appetite limits. To provide risk oversight, senior management risk committees are mandated to focus on specific risk areas. These oversight committees are the Hong Kong Market Risk Committee, the Hong Kong Credit Risk Committee, the Hong Kong Asset and Liability Committee and the Hong Kong Operational Risk Committee.

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with the business units, independent control functions provide senior management with a timely assessment of key risk exposures and the associated management responses. These units also recommend risk appetite and control limits for approval which is in line with the Group's risk governance framework.

**(a) Credit risk**

Credit risk is the potential earnings volatility caused by obligors' inability to fulfill their contractual debt obligations. Senior management sets the overall direction and policy for managing credit risk at the Group level. In so doing, it directs the risk appetite and underwriting activities for various countries, industries and counterparties taking into account factors such as prevailing business and economic conditions. The Core Credit Risk Policy and the accompanying supplemental policies set forth the principles by which the Group conducts its credit risk underwriting activities. The Hong Kong Credit Risk Committee serves as the executive forum for overseeing various aspects of credit risk taking including framework, limit management, policies, processes, methodologies and systems.

Exposure to credit risk arises from lending, sales and trading as well as derivative activities. 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 of contingent nature. Documentary and commercial letters of credit, which are undertakings by the Group on behalf of customers, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from direct borrowing. Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. The majority of unused commitments are contingent upon customers observing or meeting certain credit terms and conditions.

The credit exposure of a derivative transaction is based on the positive mark-to-market value to the Group, which in general is only a fraction of the derivative contract or notional amount used to express the volume of instruments. This credit exposure, together with potential exposures from market movements, is managed as part of the overall lending limits to the counterparties. Credit exposures on these instruments are usually unsecured, except where the Group enters into collateralised margin transactions with counterparties. The Group currently uses the current exposure method for the purpose of providing capital for such counterparty exposures. Internally, the Bank measures counterparty credit exposure using the mark-to-market exposure with an appropriate add-on for future potential exposures.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(a) Credit risk (continued)**

The risk management of the exposures is conducted through the credit application process which includes the assessment of repayment likelihood and the establishment of appropriate credit limits. The Group uses various internal and external risk rating systems (credit scorecards, customer risk grading and credit bureau scores) to assess the level of credit risk accepted by the Group. Business units and credit approvers have the responsibility to ensure that credits are properly assessed and classified. Business units also assume the responsibility to ensure that all crucial information is included in the application process for the purpose of assessment and approval.

The Group adopts a multi-level credit approval process requiring loan approval at successively higher levels and / or committees (as delegated) depending on, among other things, the size, nature of the proposed transactions and credit quality. Exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits) by credit management units at the transaction and the portfolio levels, as appropriate.

In addition to the consideration of the primary recourse to the obligor for the credit risk underwritten, the employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and / or third party support as well as the use of credit derivatives to hedge or transfer risk to other third parties form an integral part of the credit risk management process. Some specific mitigation measures are outlined below:

(i) Collateral

Where possible, the Group takes collateral as a secondary recourse to the borrower. The collateral includes cash, marketable securities, properties, trade receivables, inventory, equipment and other physical and financial collateral. The Group may also take fixed and floating charges on assets of borrowers. It has put in place policies which govern the determination of eligibility of various collateral to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigations. For collateral taken in the global financial market operations, the collateral is marked to market on a mutually agreed period with the respective counterparties. For collateral taken for commercial banking, the collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. In general, the Group considers the collateral it has taken as well diversified.

(ii) Master netting arrangements

The Group further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually accounted for individually on a gross basis. However, 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.

(iii) Other risk mitigating factors

In addition, the Group also uses guarantees, credit derivatives and credit insurance as credit risk mitigating factors. Whilst the Group may accept guarantees from any counterparty, it sets a threshold internally for considering guarantors to be eligible for credit risk mitigation. Credit derivatives are used as credit risk mitigating factors mainly in structured transactions and for global financial market operations.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (a) Credit risk (continued)

##### Maximum exposure to credit risk

The maximum exposure to credit risk is limited to the amounts on the balance sheet as well as commitments to extend credit and contingencies, without taking into account the fair value of any collateral and master netting arrangements. The analysis below shows the maximum exposure to credit risk for the various on- and off-balance sheet items.

	Group	
	2009 HK\$'000	2008 HK\$'000
Balances with banks	28,935,145	21,215,731
Placements with and advances to banks	15,564,769	17,124,092
Trading securities	2,413,528	3,039,097
Financial assets designated at fair value through profit or loss	38,385	25,054
Positive replacement values for derivative financial instruments	3,193,072	2,505,551
Advances to customers less impairment allowances	130,678,814	132,384,605
Financial investments	36,552,220	33,502,677
Other assets	4,783,122	3,408,453
Contingent liabilities	7,670,873	7,063,367
Commitments	113,495,160	108,956,541
	<u>343,325,088</u>	<u>329,225,168</u>

##### Advances to customers by credit quality

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Neither past due nor impaired	127,564,468	127,243,719
Past due but not impaired	2,760,245	4,772,734
Impaired	2,898,204	2,990,588
	<u>133,222,917</u>	<u>135,007,041</u>

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

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (a) Credit risk (continued)

##### Advances to customers by credit quality (continued)

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

2009	Group and Bank		
	Pass HK\$'000	Special mention HK\$'000	Total HK\$'000
Manufacturing	9,683,456	592,571	10,276,027
Building and construction	24,481,076	306,918	24,787,994
Housing loans	41,658,287	23,099	41,681,386
General commerce	21,197,910	1,187,205	22,385,115
Transportation, storage and communication	11,329,440	88,778	11,418,218
Financial institutions, investments and holding companies	759,500	10,582	770,082
Professionals and private individuals (except housing loans)	11,126,647	70,773	11,197,420
Others	4,901,324	146,902	5,048,226
	<b>125,137,640</b>	<b>2,426,828</b>	<b>127,564,468</b>

2008	Group and Bank		
	Pass HK\$'000	Special mention HK\$'000	Total HK\$'000
Manufacturing	9,605,301	947,299	10,552,600
Building and construction	22,430,439	419,284	22,849,723
Housing loans	40,192,794	27,046	40,219,840
General commerce	23,365,872	2,637,226	26,003,098
Transportation, storage and communication	10,940,030	88,502	11,028,532
Financial institutions, investments and holding companies	603,541	–	603,541
Professionals and private individuals (except housing loans)	11,060,823	195,026	11,255,849
Others	4,538,578	191,958	4,730,536
	<b>122,737,378</b>	<b>4,506,341</b>	<b>127,243,719</b>

**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(a) Credit risk (continued)**

**Advances to customers by credit quality (continued)**

(ii) Advances to customers that were past due but not impaired

2009	Past due				Total HK\$'000
	Less than 1 month HK\$'000	1-2 months HK\$'000	2-3 months HK\$'000	More than 3 months HK\$'000	
<b>Group and Bank</b>					
Manufacturing	204,871	14,791	20,986	–	240,648
Building and construction	502,433	506	9,037	–	511,976
Housing loans	671,917	8,009	41,682	–	721,608
General commerce	379,967	30,496	10,147	–	420,610
Transportation, storage and communication	207,692	4,472	4,882	–	217,046
Financial institutions, investments and holding companies	10,263	–	–	–	10,263
Professionals and private individuals (except housing loans)	296,204	8,608	2,743	247,641	555,196
Others	79,217	3,522	159	–	82,898
	<u>2,352,564</u>	<u>70,404</u>	<u>89,636</u>	<u>247,641</u>	<u>2,760,245</u>
	Past due				
2008	Less than 1 month HK\$'000	1-2 months HK\$'000	2-3 months HK\$'000	More than 3 months HK\$'000	Total HK\$'000
<b>Group and Bank</b>					
Manufacturing	415,208	40,304	67,102	–	522,614
Building and construction	707,411	61,106	8,541	–	777,058
Housing loans	940,046	75,505	8,037	–	1,023,588
General commerce	1,016,489	186,065	142,085	–	1,344,639
Transportation, storage and communication	445,510	3,897	–	–	449,407
Financial institutions, investments and holding companies	8,554	2,180	–	–	10,734
Professionals and private individuals (except housing loans)	310,309	12,915	1,901	174,458	499,583
Others	108,823	36,288	–	–	145,111
	<u>3,952,350</u>	<u>418,260</u>	<u>227,666</u>	<u>174,458</u>	<u>4,772,734</u>

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

The fair value of collateral pledged for the advances to customers that were past due but not impaired amounted to HK\$4,096,093,000 as at 31 December 2009 (2008: HK\$5,304,724,000).



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (a) Credit risk (continued)

##### Advances to customers by credit quality (continued)

##### (iii) Impaired advances to customers

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Manufacturing	770,389	687,969
Building and construction	283,964	178,775
Housing loans	90,651	155,949
General commerce	1,176,228	1,266,881
Transportation, storage and communication	31,487	29,789
Financial institutions, investments and holding companies	7,004	7,003
Professionals and private individuals (except housing loans)	196,396	368,902
Others	342,085	295,320
	<b><u>2,898,204</u></b>	<b><u>2,990,588</u></b>

	Group and Bank			
	2009 HK\$'000	% of gross advances to customers	2008 HK\$'000	% of gross advances to customers
Gross impaired advances	2,898,204	2.18	2,990,588	2.22
Individual impairment allowances	<u>(1,848,459)</u>		<u>(1,663,850)</u>	
	<b><u>1,049,745</u></b>		<b><u>1,326,738</u></b>	
Impaired advances covered by collateral	<b><u>966,997</u></b>		<b><u>1,142,021</u></b>	

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

##### Renegotiated advances

The renegotiated advances are those advances which are renegotiated at non-commercial terms and currently classified as "Neither past due nor impaired" or "Past due but not impaired". There are no outstanding renegotiated advances as at 31 December 2009 (2008: Nil).

**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(a) Credit risk (continued)**

**Analysis of individual impairment allowances**

	Group and Bank					
	As at 1 January 2009 HK\$'000	Amounts written off HK\$'000	Recoveries of advances written off in previous years HK\$'000	Net charge to income statement HK\$'000	Exchange and other differences HK\$'000	As at 31 December 2009 HK\$'000
Manufacturing	572,910	(112,901)	1,616	73,246	–	534,871
Building and construction	57,361	(35,044)	612	15,625	–	38,554
Housing loans	5,775	(80)	7,094	(7,225)	–	5,564
General commerce	401,923	(192,362)	3,900	648,715	(908)	861,268
Transportation, storage and communication	17,250	(2,333)	293	(2,750)	–	12,460
Financial institutions, investments and holding companies	2,239	–	549	4,133	–	6,921
Professionals and private individuals (except housing loans)	312,628	(126,649)	62	(12,227)	–	173,814
Others	293,764	(75,712)	1,361	(4,406)	–	215,007
	<u>1,663,850</u>	<u>(545,081)</u>	<u>15,487</u>	<u>715,111</u>	<u>(908)</u>	<u>1,848,459</u>

	Group and Bank					
	As at 1 January 2008 HK\$'000	Amounts written off HK\$'000	Recoveries of advances written off in previous years HK\$'000	Net charge to income statement HK\$'000	Exchange and other differences HK\$'000	As at 31 December 2008 HK\$'000
Manufacturing	292,057	(21,727)	518	306,000	(3,938)	572,910
Building and construction	59,124	(4,242)	–	3,502	(1,023)	57,361
Housing loans	14,192	(1,963)	15,487	(21,049)	(892)	5,775
General commerce	247,858	(51,793)	429	212,680	(7,251)	401,923
Transportation, storage and communication	12,648	(10,713)	200	15,285	(170)	17,250
Financial institutions, investments and holding companies	120	–	128	2,031	(40)	2,239
Professionals and private individuals (except housing loans)	54,987	(50,077)	8	309,821	(2,111)	312,628
Others	115,108	(11,751)	48	192,052	(1,693)	293,764
	<u>796,094</u>	<u>(152,266)</u>	<u>16,818</u>	<u>1,020,322</u>	<u>(17,118)</u>	<u>1,663,850</u>

**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(a) Credit risk (continued)**

**Analysis of collective impairment allowances**

	Group		
	As at 1 January 2009 HK\$'000	Additions/ (Releases) HK\$'000	As at 31 December 2009 HK\$'000
Manufacturing	128,667	(42,051)	86,616
Building and construction	150,398	(25,959)	124,439
Housing loans	21,817	(4,669)	17,148
General commerce	367,363	(134,503)	232,860
Transportation, storage and communication	96,055	(53,906)	42,149
Financial institutions, investments and holding companies	2,949	183	3,132
Professionals and private individuals (except housing loans)	149,358	12,211	161,569
Others	41,979	(14,248)	27,731
	<u>958,586</u>	<u>(262,942)</u>	<u>695,644</u>

	Group		
	As at 1 January 2008 HK\$'000	Additions/ (Releases) HK\$'000	As at 31 December 2008 HK\$'000
Manufacturing	116,382	12,285	128,667
Building and construction	68,324	82,074	150,398
Housing loans	59,739	(37,922)	21,817
General commerce	351,334	16,029	367,363
Transportation, storage and communication	65,928	30,127	96,055
Financial institutions, investments and holding companies	573	2,376	2,949
Professionals and private individuals (except housing loans)	186,535	(37,177)	149,358
Others	40,380	1,599	41,979
	<u>889,195</u>	<u>69,391</u>	<u>958,586</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (a) Credit risk (continued)

##### Analysis of collective impairment allowances (continued)

	Bank		
	As at 1 January 2009 HK\$'000	Additions/ (Releases) HK\$'000	As at 31 December 2009 HK\$'000
Manufacturing	128,667	(42,051)	86,616
Building and construction	150,398	(25,959)	124,439
Housing loans	21,817	(4,669)	17,148
General commerce	367,363	(134,503)	232,860
Transportation, storage and communication	96,055	(53,906)	42,149
Financial institutions, investments and holding companies	2,949	183	3,132
Professionals and private individuals (except housing loans)	125,726	9,046	134,772
Others	41,979	(14,248)	27,731
	<u>934,954</u>	<u>(266,107)</u>	<u>668,847</u>

	Bank		
	As at 1 January 2008 HK\$'000	Additions/ (Releases) HK\$'000	As at 31 December 2008 HK\$'000
Manufacturing	116,382	12,285	128,667
Building and construction	68,324	82,074	150,398
Housing loans	59,739	(37,922)	21,817
General commerce	351,334	16,029	367,363
Transportation, storage and communication	65,928	30,127	96,055
Financial institutions, investments and holding companies	573	2,376	2,949
Professionals and private individuals (except housing loans)	161,524	(35,798)	125,726
Others	40,380	1,599	41,979
	<u>864,184</u>	<u>70,770</u>	<u>934,954</u>

#### Geographical concentration

Over 90% of the gross advances to customers and the related impaired advances, overdue advances, individual impairment allowances and collective impairment allowances were located in Hong Kong after taking into account the transfer of risk. In general, transfer of risk applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(b) Market risk**

(i) Trading market risk

Trading market risk arises from the impact on trading positions of changes in foreign exchange rates, interest rate yields and credit spreads. It also includes the impact from changes in the correlations and volatilities of the above risk factors. The Group manages trading market risk in the course of market-making, structuring and packaging products for investors and other clients, as well as to benefit from market opportunities. The Group's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing the management of market risk within the Group including limit setting and independent model validation, monitoring and valuation.

The Hong Kong Market Risk Committee ("HKMRC") serves as the executive forum for overseeing various aspects of market risk taking including framework, limit management, policies, processes, methodologies and systems. The roles, functions and compositions of the HKMRC are disclosed in Note 1 of the unaudited supplementary information.

The principal market risk appetite measures for trading market risk are Value-at-Risk ("VaR") and stress loss. This VaR is complemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as loss triggers for management action.

The Group's general market risk VaR methodology uses a historical simulation approach to forecast the Group's trading market risk. The same methodology is employed to compute stressed VaR and average tail loss metrics. The Group computes VaR (in Singaporean Dollars "SG\$") daily. VaR (at a 99% confidence level over a one-day holding period, using a 1-year historical observation period) is back-tested against the profit or loss of the trading book in line with the policy in order to monitor its predictive power.

Although VaR provides valuable insights, no single risk measure can capture all aspects of trading market risk. To complement the VaR measure, regular stress testing is carried out.

The following table shows the year end, average, highest and lowest daily VaR (at a 99% confidence level over a one-day holding period) for the trading market risk:

Group SG\$'million	As at 31 December 2009	1 January 2009 to 31 December 2009*		
		Average	Highest	Lowest
Total	<u>0.6</u>	<u>1.0</u>	<u>3.1</u>	<u>0.4</u>
SG\$'million	As at 31 December 2008	1 January 2008 to 31 December 2008**		
		Average	Highest	Lowest
Total	<u>1.6</u>	<u>1.1</u>	<u>2.9</u>	<u>0.4</u>

\* using a 2-year historical observation period up to 31 May 2009, and using a 1-year historical observation period from 1 June 2009 onwards

\*\* using a 2-year historical observation period

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(b) Market risk (continued)**

(ii) Non-trading market risk

Non-trading market risk arises from changes in interest rates, foreign exchange rates and equity prices. Non-trading market risk arises in the course of (a) the Group's management of funds arising from banking intermediation and (b) the Group's banking business and investments; specifically, from mismatches in the interest rate profile of assets and liabilities, from the effect of exchange rate movements on the Group's earnings, capital accounts and investments denominated in foreign currencies and from the effect of changes in equity prices on the carrying value of strategic investments and other major stakes.

To optimise its income and balance sheet management, the Group deploys funds in debt securities or in the interbank market. Derivative financial instruments may be used to hedge non-trading market risk. Senior Management establishes a framework governing the Group's investment of its surplus funds. The market risk arising in the course of managing these funds comprises interest rate and credit spread risks. The HKMRC is responsible for overseeing the risks. Risk appetite limits are allocated and risk oversight for these risks is performed in a manner similar to that for trading market risk.

**Interest rate risk**

The Group distinguishes two major sources of non-trading interest rate risk arising from (a) the deployment of funds in investments (and associated hedges) and interbank market activities and (b) mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges) in major funding currencies. Major funding currencies are HKD and USD. The HKMRC is charged with oversight of non-trading interest rate risk from an economic value perspective. The principal market risk appetite measure for the former source of non-trading interest rate risk is sensitivity analysis, complemented by income scenario simulations.

Interest rate risk arising from mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges) has several aspects: basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. The Hong Kong Asset and Liability Committee ("HKALCO") is charged with oversight and broad strategy for this risk. To monitor this risk, the Group uses various tools, including income scenario simulations and sensitivity analysis.

The Group manages and monitors the sensitivity of the net interest income ("NII") of its consolidated non-trading positions. The Group's interest rate risk is mainly in USD and HKD. The Group forecasts the most likely interest rate scenario for the next 12 months based on input from various business units and the in-house research unit. The Group monitors the impact of interest rate changes on earnings over the next 12 months. The following table sets out what would have been the profit and loss impact of interest rate changes on positions. Outcomes may differ from the sensitivity impact as the Group manages factors such as changes in volumes, margins (for interest rate risk) and future business strategies, the impact of which is not captured in the sensitivity assessment.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (b) Market risk (continued)

##### (ii) Non-trading market risk (continued)

	Parallel increase / decrease in basis points	Sensitivity of net interest income
		HK\$'000
<b>Change in 2010 projected NII</b>	<b>+25</b>	<b>199,050</b>
	<b>-25</b>	<b>(170,691)</b>
	<b>-10</b>	<b>(72,656)</b>
Change in 2009 projected NII	+25	200,057
	-25	(179,610)

To complement the above sensitivity analysis of the NII, the Group monitors, on a monthly basis, the impact of interest rate changes under simulated stress scenarios on earnings over the next 12 months. The Group simulates the prospective interest rate changes from the most likely scenario using 1 and 99 percentile of observed interest rate changes over 5 years of historical observation. A 1-year holding period is assumed in measuring the interest rate changes. The following table sets out what would have been the profit and loss impact of stressed interest rate changes.

	Stressed scenarios	Sensitivity of net interest income
		HK\$'000
<b>Change in 2010 projected NII</b>	1 percentile interest rate change	<b>(1,061,180)</b>
	99 percentile interest rate change	<b>1,893,691</b>

#### Currency risk

Non-trading foreign exchange exposure covers the foreign exchange risk arising from foreign investments and foreign currency earnings. Foreign currency loans and investments in fundable currencies are generally funded in the same foreign currencies. However, positions arising from investments in currencies which have high hedging costs or which are illiquid or controlled, will be reviewed by the HKALCO and may be managed with alternative strategies or left unhedged. This foreign exchange risk is monitored using foreign exchange net open position reports. The Group's non-trading foreign exchange exposures as at 31 December 2009 and 2008 were not material.

#### Equity risk

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 non-trading portfolio as at 31 December 2009 and 2008 were not material and were held for long term investment purpose. They were reported as financial investments in Note 21 to the financial statements and are subject to the accounting and valuation policies set out in Notes 2(c) and 2(e) to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(c) *Liquidity risk***

Funding liquidity risk (or liquidity risk) is defined as the current and prospective risk arising from the inability of the Group to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Group seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The primary tool of monitoring liquidity is the maturity mismatch analysis, which presents the profile of future expected cashflows under defined scenarios. This is monitored over successive time bands and across major currencies under normal and adverse market scenario conditions.

The HKALCO is the primary party responsible for liquidity management based on guidelines approved by the Board Risk Management Committee. Limits are set on maturity mismatches over books under normal and stress scenarios, liquidity ratios and deposit concentration risks. As part of the liquidity management, the Group will set limits to ensure that the funding requirements will not exceed the available funding and liquid assets available for both normal and stress scenarios.

As part of its management of liquidity risk inherent in its derivative and non-derivative financial liabilities, the Group focuses on a number of components. These include maintaining sufficient liquid assets, maintaining diversified sources of liquidity, and having robust internal control processes and contingency plans.



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (c) Liquidity risk (continued)

The carrying amounts of assets and liabilities analysed by the remaining period as at 31 December to the contractual maturity dates are as follows:

2009	Group							Total
	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	
<b>HK\$'million</b>								
<b>Assets</b>								
- Cash and balances with banks	3,277	23,938	1,787	353	-	-	-	29,355
- Placements with and advances to banks	-	-	12,309	1,750	1,506	-	-	15,565
- Trading securities	-	220	203	1,027	870	94	-	2,414
- Financial assets designated at fair value through profit or loss	-	-	-	-	38	-	-	38
- Advances to customers	6,341	12,110	11,457	13,514	31,166	54,960	1,131	130,679
- Financial investments								
- Debt securities classified as available-for-sale	-	693	1,541	6,790	21,089	1,545	14	31,672
- Debt securities classified as loans and receivables	-	-	-	1,245	3,040	596	-	4,881
- Equities securities	-	-	-	-	-	-	82	82
- Others	320	4,742	1,659	85	247	35	4,282	11,370
<b>Total assets</b>	<b>9,938</b>	<b>41,703</b>	<b>28,956</b>	<b>24,764</b>	<b>57,956</b>	<b>57,230</b>	<b>5,509</b>	<b>226,056</b>
<b>Liabilities</b>								
- Deposits and balances from banks	883	1,705	-	-	-	-	-	2,588
- Trading liabilities	-	1,558	603	664	654	200	-	3,679
- Financial liabilities designated at fair value through profit or loss	-	79	126	342	112	-	-	659
- Deposits from customers	86,950	49,917	28,164	16,760	80	-	-	181,871
- Certificates of deposit issued	-	-	-	-	498	1,055	-	1,553
- Subordinated liability	-	-	-	-	-	4,188	-	4,188
- Others	608	5,890	2,408	532	176	9	1,218	10,841
<b>Total liabilities</b>	<b>88,441</b>	<b>59,149</b>	<b>31,301</b>	<b>18,298</b>	<b>1,520</b>	<b>5,452</b>	<b>1,218</b>	<b>205,379</b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (c) Liquidity risk (continued)

2008	Group							Total
	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	
HK\$ million								
Assets								
– Cash and balances with banks	3,427	16,324	1,665	304	–	–	–	21,720
– Placements with and advances to banks	–	–	11,798	3,061	2,265	–	–	17,124
– Trading securities	–	86	95	1,314	1,288	256	–	3,039
– Financial assets designated at fair value through profit or loss	–	–	–	–	25	–	–	25
– Advances to customers	8,388	15,868	14,777	13,160	27,564	51,147	1,481	132,385
– Financial investments								
– Debt securities classified as available-for-sale	–	1,678	2,258	5,895	15,816	2,040	14	27,701
– Debt securities classified as loans and receivables	–	–	134	501	4,554	612	–	5,801
– Equities securities	–	–	–	–	–	–	67	67
– Others	261	183	80	58	277	51	8,258	9,168
<b>Total assets</b>	<b>12,076</b>	<b>34,139</b>	<b>30,807</b>	<b>24,293</b>	<b>51,789</b>	<b>54,106</b>	<b>9,820</b>	<b>217,030</b>
Liabilities								
– Deposits and balances from banks	953	75	–	–	–	–	–	1,028
– Trading liabilities	–	114	410	1,021	936	446	–	2,927
– Financial liabilities designated at fair value through profit or loss	–	330	388	1,211	2,069	495	–	4,493
– Deposits from customers	54,918	70,154	42,288	9,536	–	–	–	176,896
– Certificates of deposit issued	–	–	6	188	504	1,141	–	1,839
– Subordinated liability	–	–	–	–	–	4,185	–	4,185
– Others	8	3,016	1,672	628	45	15	4,740	10,124
<b>Total liabilities</b>	<b>55,879</b>	<b>73,689</b>	<b>44,764</b>	<b>12,584</b>	<b>3,554</b>	<b>6,282</b>	<b>4,740</b>	<b>201,492</b>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (c) Liquidity risk (continued)

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

2009	Group					Total
	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	
<b>HK\$'million</b>						
<b>Financial assets</b>						
– Cash and balances with banks	3,277	25,748	355	–	–	29,380
– Placements with and advances to banks	–	12,325	1,765	1,518	–	15,608
– Trading securities	–	431	1,060	887	90	2,468
– Financial assets designated at fair value through profit or loss	–	–	2	40	–	42
– Advances to customers	6,885	24,237	15,273	36,530	65,513	148,438
– Financial investments						
– Debt securities classified as available-for-sale	–	2,495	7,622	22,685	1,730	34,532
– Debt securities classified as loans and receivables	–	37	1,411	3,336	643	5,427
– Others	59	5,497	382	275	39	6,252
	<u>10,221</u>	<u>70,770</u>	<u>27,870</u>	<u>65,271</u>	<u>68,015</u>	<u>242,147</u>
<b>Financial liabilities</b>						
– Deposits and balances from banks	883	1,705	–	–	–	2,588
– Trading liabilities	–	2,171	687	684	190	3,732
– Financial liabilities designated at fair value through profit or loss	–	315	368	115	–	798
– Deposits from customers	86,952	78,136	16,740	81	–	181,909
– Certificates of deposit issued	–	8	53	696	1,208	1,965
– Subordinated liability	–	6	33	648	4,641	5,328
– Others	606	7,269	888	550	53	9,366
	<u>88,441</u>	<u>89,610</u>	<u>18,769</u>	<u>2,774</u>	<u>6,092</u>	<u>205,686</u>

Comparative figures for financial assets by contractual undiscounted cash flow projections have not been presented since they are not required for first year disclosure.

**DBS BANK (HONG KONG) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(c) Liquidity risk (continued)**

2009	Group					Total
	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	
HK\$'million						
<b>Derivatives settled on a gross basis</b>						
– Foreign exchange contracts						
– inflow	–	51,608	26,889	1,836	–	80,333
– outflow	–	51,540	26,885	1,836	–	80,261
<b>Contingent liabilities and commitments</b>						
– Contingent liabilities	–	7,671	–	–	–	7,671
– Commitments	55,043	58,452	–	–	–	113,495
	<u>55,043</u>	<u>66,123</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>121,166</u>

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (c) Liquidity risk (continued)

2008	Group					Total
	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	
HK\$'million						
Financial liabilities						
– Deposits and balances from banks	953	76	–	–	–	1,029
– Trading liabilities	–	535	1,063	993	398	2,989
– Financial liabilities designated at fair value through profit or loss	–	1,014	1,966	2,290	477	5,747
– Deposits from customers	54,926	112,935	9,700	–	–	177,561
– Certificates of deposit issued	–	14	244	710	1,250	2,218
– Subordinated liability	–	26	47	442	4,586	5,101
– Others	–	4,567	1,422	1,001	157	7,147
	<u>55,879</u>	<u>119,167</u>	<u>14,442</u>	<u>5,436</u>	<u>6,868</u>	<u>201,792</u>
Derivatives settled on a gross basis						
– Foreign exchange contracts						
– inflow	–	79,928	52,822	1,133	257	134,140
– outflow	–	79,805	52,819	1,130	257	134,011
Contingent liabilities and commitments						
– Contingent liabilities	–	7,063	–	–	–	7,063
– Commitments	50,949	58,008	–	–	–	108,957
	<u>50,949</u>	<u>65,071</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>116,020</u>

Customer assets and liabilities (including non-maturing savings/current deposits) are represented on contractual basis or period when they can legally be withdrawn. On a behavioural basis, the assets and liabilities cash flows may differ from contractual basis.

For the purpose of liquidity risk management, the Group actively monitors and manages its liquidity positions within a 1-year period. Conservative behavioural profiling is used for assets, liabilities and off-balance sheet commitments that have exhibited cash flow patterns that differ significantly from the actual contractual maturity profile.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42 Financial risk management (continued)**

**(c) Liquidity risk (continued)**

The table below shows the Group's behavioural net and cumulative maturity mismatch between assets and liabilities over a 1-year period under normal business scenarios:

HK\$'million	Less than 7 days	7 days to 1 month	1 to 3 months	3 to 12 months
<b>2009</b>				
Net liquidity mismatch	<b>32,944</b>	<b>1,692</b>	<b>22,573</b>	<b>(4,008)</b>
Cumulative mismatch	<b>32,944</b>	<b>34,636</b>	<b>57,209</b>	<b>53,201</b>
<b>2008</b>				
Net liquidity mismatch	31,625	(2,371)	19,773	(3,421)
Cumulative mismatch	31,625	29,254	49,027	45,606

\* As the behavioural assumptions used to determine the maturity mismatch between assets and liabilities are updated from time to time, the information presented above is not directly comparable.

**(d) Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events, including legal risk, but does not include strategic or reputational risk. An Operational Risk Management Framework, approved by the Board Risk Management Committee, has been developed with the objective to ensure that operational risks are properly identified, monitored, managed and reported in a structured, systematic and consistent manner.

To manage and control operational risk, the Framework encompasses various tools including, control self-assessment, risk event management, key risk indicator monitoring and process risk mapping. Risk events, including any significant incidents that may impact the Group's reputation, are required to be reported based on certain thresholds established. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward looking manner.

A key component of the Framework is a set of Core Operational Risk Standards which provides guidance on the baseline controls to ensure a controlled and sound operating environment. Each new product or service introduced or outsourcing initiative is subject to a risk review and sign-off process where relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Variations of existing products or services and outsourcing initiatives, are also subject to a similar process. Major operational risk mitigation programmes include Business Continuity Management and Global Insurance Programme. On an annual basis, the Chief Executive Officer provides an attestation to the Board of Directors on the state of business continuity management, including any residual risks.

The Hong Kong Operational Risk Committee oversees the operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Committee also performs regular review of the operational risk profiles and approves corporate operational risk policies.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (e) Capital management

The Bank'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 following table sets forth details of capital resources and capital adequacy ratios for the Bank. The Banking Ordinance and the Banking (Capital) Rules set out the current requirements relating to the minimum capital adequacy ratios for an authorized institution incorporated in Hong Kong and the methodology for calculating these ratios. The Bank complied with the capital requirements imposed by the Hong Kong Monetary Authority throughout 2009 and 2008.

	2009 HK\$'000	2008 HK\$'000
Core capital		
Paid up ordinary share capital	7,000,000	5,200,000
Share premium	595,503	595,503
Reserves (eligible for inclusion in core capital)	9,011,775	7,572,039
Profit and loss account	2,366,701	1,805,439
Deduct:		
Deferred tax assets	–	(139,328)
	<u>18,973,979</u>	<u>15,033,653</u>
Deductions from core capital	<u>(252,899)</u>	<u>(95,183)</u>
Core capital after deductions	<u>18,721,080</u>	<u>14,938,470</u>
Supplementary capital		
Reserve on revaluation of holding of land and buildings	242,398	62,893
Reserve on revaluation of holding of securities not held for trading purposes	87,889	(539,178)
Collective impairment allowances	115,257	934,954
Regulatory reserve	106,476	416,822
Term subordinated liability	4,187,673	4,185,027
	<u>4,739,693</u>	<u>5,060,518</u>
Deductions from supplementary capital	<u>(252,899)</u>	<u>(95,183)</u>
Supplementary capital after deductions	<u>4,486,794</u>	<u>4,965,335</u>
Total capital base before deductions	<u>23,713,672</u>	<u>20,094,171</u>
Deductions from core capital and supplementary capital	<u>(505,798)</u>	<u>(190,366)</u>
Total capital base after deductions	<u>23,207,874</u>	<u>19,903,805</u>
Risk-weighted assets	<u>149,029,765</u>	<u>152,410,438</u>
Capital adequacy ratio		
Core capital ratio	12.6%	9.8%
Supplementary capital ratio	3.0%	3.3%
Total capital adequacy ratio	<u>15.6%</u>	<u>13.1%</u>

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 42 Financial risk management (continued)

#### (e) Capital management (continued)

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

The term subordinated liability represents the subordinated loan with principal amount of US\$540,000,000 from its intermediate holding company, DBS Bank Ltd., on 12 December 2006. The subordinated loan forms part of the capital base of the Bank with its terms and conditions set out in Note 33 to the financial statements.

### 43 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 Bank and 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, derivative financial instruments, contingent liabilities and commitments.

The Group has policies on lending to related parties which define related parties, credit and reporting processes, requirements and restrictions on such lending. The lending terms and conditions (including interest rates, commissions, fees, etc.) applying to related parties are at arm's length.

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 Bank Ltd.		Fellow subsidiaries	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Interest income	389,046	762,409	25,430	73,895
Interest expense	(66,198)	(267,571)	(10,529)	(10,596)
Net fee and commission income	234	(425)	(9,726)	1,020
Net income from financial instruments at fair value through profit and loss	2,851,765	891,673	155	(36,868)
Other income	37,018	25,714	35,661	29,974
Total expenses recovered / (charged)	11,010	(91,671)	16,602	10,865



# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 43 Material related party transactions (continued)

#### (a) Holding companies and fellow subsidiaries (continued)

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

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Cash and balances with banks	<b>21,626,165</b>	15,672,029	<b>21,623,556</b>	15,669,608
Placements with and advances to banks	<b>11,491,670</b>	14,510,080	<b>11,491,670</b>	14,510,080
Positive replacement values for derivative financial instruments	<b>1,748,447</b>	1,210,147	<b>1,748,447</b>	1,210,147
Other assets	<b>1,531,111</b>	168,439	<b>1,531,111</b>	168,439
	<b><u>36,397,393</u></b>	<u>31,560,695</u>	<b><u>36,394,784</u></b>	<u>31,558,274</u>
Deposits and balances from banks	<b>1,783,301</b>	111,457	<b>1,783,301</b>	111,457
Negative replacement values for derivative financial instruments	<b>1,877,815</b>	2,808,983	<b>1,877,815</b>	2,808,983
Subordinated liability	<b>4,187,673</b>	4,185,027	<b>4,187,673</b>	4,185,027
Other liabilities	<b>68,594</b>	58,650	<b>68,594</b>	58,650
	<b><u>7,917,383</u></b>	<u>7,164,117</u>	<b><u>7,917,383</u></b>	<u>7,164,117</u>

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

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Exchange rate contracts	<b>141,841,906</b>	198,151,048
Interest rate contracts	<b>55,018,301</b>	53,838,335
Equity contracts	<b>1,257,231</b>	3,379,590
	<b><u>198,117,438</u></b>	<u>255,368,973</u>

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

As at 31 December 2009, total contingent liabilities and commitments with DBS Bank Ltd. and fellow subsidiaries amounted to HK\$19,239,737,000 (2008: HK\$13,845,214,000).

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 43 Material related party transactions (continued)

#### (a) Holding companies and fellow subsidiaries (continued)

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

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Deposits from customers	<u>316,476</u>	<u>316,803</u>

- (vi) Balances with fellow subsidiaries as at 31 December

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Cash and balances with banks	455,111	10,788
Placements with and advances to banks	1,506,408	2,614,012
Other assets	<u>138,025</u>	<u>81,492</u>
	<u>2,099,544</u>	<u>2,706,292</u>
Deposits and balances from banks	105,706	7,029
Deposits from customers	1,424,516	2,561,916
Other liabilities	<u>15,572</u>	<u>80,009</u>
	<u>1,545,794</u>	<u>2,648,954</u>

#### (b) Jointly controlled entity

Under the Joint Venture Agreement (the "Agreement") between the Bank, Whampoa Limited and Hutchison DBS Card Limited ("HDCL"), the Bank issues and services credit cards under the Compass brand. The Compass credit card receivables are included under "Advances to customers" in the Bank's balance sheet. Under the Agreement, all the income, expenses and loan impairment allowances on the Compass cards are recorded in the books of HDCL. The income and expenses; assets and liabilities of HDCL are recognised by the Group through proportionate consolidation on a line-by-line basis.

As at 31 December 2009, the amount due from the Bank to the jointly controlled entity is HK\$1,823,465,000 (2008: HK\$1,616,405,000), of which HK\$1,230,000,000 (2008: HK\$1,080,000,000) is interest-bearing time deposit and the remaining balance is interest free and repayable on demand. Interest expense on the time deposit for the year ended 31 December 2009 paid and payable to HDCL is HK\$40,960,000 (2008: HK\$58,123,000). Gross service fee income from HDCL to the Bank for the year ended 31 December 2009 is HK\$80,291,000 (2008: HK\$83,323,000).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**43 Material related party transactions (continued)**

**(c) Directors and key management personnel**

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

During the year, the Group has banking transactions with directors and key management personnel of the DBSH Group and their close family members, including deposit taking, loans and credit card facilities. These transactions are made in the ordinary course of business and on commercial terms, and are not material.

- (ii) Compensation of directors and key management personnel

	<b>Group and Bank</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Salaries, other short term employee benefits and directors' fee	<b>53,568</b>	65,165
Pensions	<b>2,427</b>	2,197
Share based payments	<b>7,519</b>	4,256
Termination benefits	–	682
	<b>63,514</b>	72,300

**(d) DBSH Share Option Plan**

Under the DBSH Share Option Plan (the "Option Plan"), options to subscribe for DBSH ordinary shares may be granted to the Group executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent).

The exercise price of the granted options is equal to the average of the last dealt prices for DBSH shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Limited, for the three consecutive trading days immediately preceding the date of the grant.

These share options vest over a period in accordance with a vesting schedule determined by the Compensation and Management Development Committee of DBSH, and are exercisable after the first anniversary of the date of the grant up to the date of expiration of the options.

There were no options granted in 2009 and 2008.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 43 Material related party transactions (continued)

#### (d) DBSH Share Option Plan (continued)

The following table sets out the movements of the unissued ordinary shares of DBSH of par value in Singaporean Dollars (“SG\$”) 1.00 each under outstanding options, the weighted average exercise prices and expiration dates.

	2009		2008	
	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	1,929,322	14.18	2,849,425	14.07
Movements during the year				
– Rights issue	340,087	14.18	–	–
– Exercised	(135,277)	12.35	(755,348)	13.59
– Forfeited	(74,648)	14.35	(15,320)	14.08
– Transferred out due to staff relocation	(27,641)	16.71	(149,435)	14.94
Balance as at 31 December	<u>2,031,843</u>	<u>14.26</u>	<u>1,929,322</u>	<u>14.18</u>
Additional information:				
Outstanding options exercisable as at 31 December	2,031,843	14.26	1,929,322	14.18
Weighted average remaining contractual life of options outstanding as at 31 December	3.1 years		4.1 years	
Range of exercise price of options outstanding as at 31 December	SG\$10.40- SG\$22.33		SG\$10.40- SG\$22.33	

In 2009, 135,277 options (2008: 755,348) were exercised at their contractual exercise prices. During the year, the weighted average market price of DBSH shares was SG\$12.80 (2008: SG\$18.59).

#### (e) DBSH Share Plan

Under the DBSH Share Plan (the “Share Plan”), DBSH ordinary shares (the “shares”) may be granted to the Group executives who hold such rank as may be determined by the Committee appointed to administer the Share Plan from time to time. The awards could be performance-based and / or time-based.

Where performance-based awards are granted, participants are awarded shares of DBSH, their equivalent cash value or a combination of both, when prescribed DBSH Group performance targets are met over a three-year performance period.

Time-based awards will only vest after the satisfactory completion of time-based service conditions. Where time-based awards are granted, participants are awarded shares of DBSH, their equivalent cash value or a combination of both as part of their deferred bonus.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**43 Material related party transactions (continued)**

**(e) DBSH Share Plan (continued)**

For performance-based awards, the shares will vest three years after the date of grant following completion of the prescribed performance period, provided the prescribed performance targets are met. A time-based award comprises two elements, namely, the main award and the “kicker” award. The shares comprised in the “kicker” award constitute twenty percent of the shares comprised in the main award. Fifty percent of the shares comprised in the main award will vest two years after the date of grant. The remainder fifty percent of the shares comprised in the main award, together with the shares comprised in the “kicker” award, will vest three years after the date of grant. In the case of both performance-based awards and time-based awards, the fair value of the shares awarded are computed based on the market price of the DBSH ordinary shares at the time of the award and is amortised through the income statement over the vesting period. At each balance sheet date, the Group revises its estimates of the number of shares expected to vest based on non-market vesting conditions and the corresponding adjustments are made to the income statement.

The following table sets out the movements of the time-based awards granted in the current and previous financial years pursuant to the Share Plan and their fair values at grant date. Fair value per share at grant date in 2008 is restated due to adjust for rights issue in January 2009. No performance-based awards were granted in 2009 and 2008.

	<b>Group and Bank</b>	
	<b>2009 grant</b>	<b>2008 grant</b>
	<b>Number of shares</b>	
Balance as at 1 January 2009	–	199,119
Rights issue in 2009	–	34,981
Granted in 2009	343,609	–
Forfeited in 2009	(3,658)	(5,137)
Transferred out due to staff relocation	–	(2,983)
	<u>339,951</u>	<u>225,980</u>
Balance as at 31 December 2009	<u>339,951</u>	<u>225,980</u>
	<b>SG\$</b>	<b>SG\$</b>
Fair value per share at grant date	<u>8.05</u>	<u>15.26</u>

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

**(f) DBSH Employee Share Plan**

The DBSH Employee Share Plan (the “ESP”) caters to all employees of the Group who are not eligible to participate in the DBSH Share Option Plan, the DBSH Share Plan or other equivalent plans.

Under the ESP, eligible employees are awarded ordinary shares of DBSH (the “shares”), their equivalent cash value or combinations of both when prescribed DBSH Group performance targets and / or time-based conditions are met. The ESP awards are granted at the absolute discretion of the Compensation and Management Development Committee.

During the current and previous financial years, no performance-based awards have been granted to eligible employees under the ESP.

# DBS BANK (HONG KONG) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 43 Material related party transactions (continued)

#### (f) DBSH Employee Share Plan (continued)

Time-based awards were granted in the current and previous financial years. The time-based awards will only vest after the satisfactory completion of time-based service conditions. Under such awards, the shares will vest at fifty percent two years after the date of grant and the remainder fifty percent three years after the date of grant. The fair value of the shares awarded are computed based on the market price of the ordinary shares of DBSH at the time of the award and is amortised through the income statement over the vesting period. At each balance sheet date, the Group revises its estimates of the number of shares expected to vest based on non-market vesting conditions and the corresponding adjustments are made to the income statement.

The following table sets out the movements of the shares granted in the current and previous financial years pursuant to the ESP and their fair values at grant date. Fair value per share at grant date in 2008 is restated due to adjust for rights issue in January 2009.

	<b>Group and Bank</b>	
	<b>2009 grant</b>	<b>2008 grant</b>
	<b>Number of shares</b>	
Balance as at 1 January 2009	–	59,800
Rights issue in 2009	–	10,480
Granted in 2009	74,500	–
Forfeited in 2009	(2,500)	(2,938)
Transferred in due to staff relocation	–	588
	<u>72,000</u>	<u>67,930</u>
	<b>SG\$</b>	<b>SG\$</b>
Fair value per share at grant date	<u>8.05</u>	<u>15.26</u>

Since the inception of the ESP, no awards have been cash-settled under the ESP.

### 44 Loans to officers

Particulars of loans made to officers and disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	<b>Balance outstanding as at 31 December</b>		<b>Maximum balance during the year</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>5,664</u>	<u>6,089</u>	<u>6,089</u>	<u>6,494</u>

### 45 Comparative figures

Certain comparative figures have been reclassified to conform with the financial statements presentation adopted in the current year.

**UNAUDITED SUPPLEMENTARY INFORMATION**

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 Corporate governance**

Under the corporate governance structure of DBS Bank (Hong Kong) Limited (the “Bank”), the role of the Board of Directors is to provide high-level guidance and effective oversight over management. To assist the Board of Directors in fulfilling its responsibilities and in accordance with the best corporate governance practice, the Board Audit Committee and Board Risk Management Committee were established and a number of specialised committees were formed to effectively contribute to the strategic and operational development of the Bank.

The roles, functions and composition of these committees are listed below:

**(a) Board Audit Committee**

The Board Audit Committee is authorised by the Board of Directors to investigate any activity within its terms of reference. Its main duties include, inter alia, the review of the Bank’s financial statements before submission to the Board of Directors, the nomination and appointment of the external auditor, the audit fee, the questions on resignation or dismissal of external auditor, the internal audit programme and consideration of any major findings of internal investigations and management’s response. The Board Audit Committee comprises the four independent non-executive directors of the Bank.

**(b) Board Risk Management Committee**

The Board Risk Management Committee provides comprehensive and bank-wide oversight of all risks and their management. It sets the overall and specific risk governance framework and obtains assurance that risk management activities are effective and that risk management activities have sufficient independence, status and visibility. It sets risk appetite on capital and limits for delegation to the relevant risk committees and units, reviews risk reporting on significant risks and risk capital adequacy and reviews and endorses the Internal Capital Adequacy Assessment Process statement. It is also responsible for obtaining assurance that the Bank is on track in meeting the Basel Capital Accord requirements according to approved plans. The Board Risk Management Committee comprises the Chairman of the Bank, the Chief Executive Officer and two independent non-executive directors.

**(c) Hong Kong Management Committee**

The Hong Kong Management Committee is responsible for formulating and implementing DBS’s strategy for Hong Kong, as well as the financial and non-financial results of DBS’s activities in this geographic segment. Key to its mandate is to provide leadership to the various business and support units in Hong Kong, with a view toward ensuring sound and effective governance, and achieving the targeted financial returns. Toward this end, the Hong Kong Management Committee is responsible for prioritising business development initiatives (as well as the support infrastructure projects necessary to underpin robust growth), and capital allocation, within the context of DBS Group strategy. It is also responsible for ensuring that policies and practices are in place to maintain high corporate governance, risk management and compliance standards in Hong Kong. Members of the Hong Kong Management Committee are senior management in Hong Kong.

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**1 Corporate governance (continued)**

**(d) Hong Kong Asset & Liability Committee**

The Hong Kong Asset & Liability Committee supervises the asset and liability management including the management of liquidity, structural interest rate risk and structural foreign exchange risk activities in Hong Kong and Macau. It manages the net interest income and margin of the region against changing interest and the currency rate conditions, and maturities / duration. It oversees the structure and composition of the balance sheets in the region, as well as the significant off-balance-sheet assets and liabilities. The Hong Kong Asset & Liability Committee comprises the Chief Executive Officer of the Bank and representatives from the relevant business units and support units and others nominated by the Chairman of the Hong Kong Asset & Liability Committee.

**(e) Hong Kong Credit Risk Committee**

The Hong Kong Credit Risk Committee serves as an executive forum for discussion and decisions on all aspects of credit risk and its management. It assesses credit risk taking and risk-return tradeoffs. The Hong Kong Credit Risk Committee identifies, measures and monitors credit risk portfolio and specific loan and asset review situations and identifies specific credit concentrations and credit trends affecting the portfolio. It approves local credit policies and/or endorses core credit-related policies in accordance with the Group Risk Governance Framework. In respect of continually determining the suitability of DBS Hong Kong's credit risk management strategy and framework as well as Internal Ratings-Based ("IRB") systems in meeting the standards under Basel II, the Hong Kong Credit Risk Committee exercises active oversight to ensure the continuing appropriateness of the rating systems, the parameterization process and the stress testing process. The members of the Hong Kong Credit Risk Committee are the Chief Credit Officer of Greater China, Chief Executive Officer of the Bank, representatives from relevant business units, support units and other members nominated by the Chairman of the Hong Kong Credit Risk Committee.

**(f) Hong Kong Market Risk Committee**

The Hong Kong Market Risk Committee provides comprehensive and location-wide oversight, direction and counsel relating to the management of market risk. It serves as an executive forum for discussion and decisions on all aspects of market risks and its management. It maintains oversight on effectiveness of market risk management infrastructure, including framework, policies, people, processes, information, methodologies and systems on market risk. The Hong Kong Market Risk Committee comprises senior management from Risk Management, representatives from relevant business units and support units and others nominated by the Chairman of the Hong Kong Market Risk Committee.

**(g) Hong Kong Operational Risk Committee**

The Hong Kong Operational Risk Committee provides comprehensive and location-wide oversight, direction and counsel relating to the management of operational risks. It monitors and reviews the effectiveness of operational risk management framework, policies, processes, methodologies and infrastructures. It performs top-down assessment and monitors critical operational risk exposures and provides direction for resolution of critical operational risk issues and monitors issue resolution. The Hong Kong Operational Risk Committee comprises the senior management from Risk Management, representatives from the relevant support units and others nominated by the Chairman of the Hong Kong Operational Risk Committee.

During the year, the Bank has complied with, in all material aspects, the guidelines set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.



**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**2 Audit**

Audit is an independent function that reports functionally to the Board Audit Committee and administratively to the Bank Chief Executive Officer. The functional reporting includes matters relating to Audit Charter, risk assessment and related audit plans, results of internal audit activities and other matters that the Head of Audit deems necessary. The Board Audit Committee approves the hiring of Head of Audit including appointment, removal, evaluation, annual compensation and salary adjustment. Administratively, the Bank Chief Executive Officer facilitates the day-to-day operations of the internal audit function, including budgeting, management accounting and human resource administration. Audit has unfettered access to any and all of the Bank's documents, records, properties and personnel including the Chairman of the Bank's Board of Directors and Board Audit Committee.

The primary role of Audit is to assist the Board and Executive Management to meet the agreed strategic and operational objectives of the Bank and its subsidiaries. This is achieved by providing an independent appraisal of the adequacy and effectiveness of the risk management, control and governance processes in operation throughout the Bank.

Audit also maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme includes ongoing monitoring and external and internal assessments of internal audit activity, which conforms to the Institute of Internal Auditor's ("IIA") International Standards for the Professional Practice of Internal Auditing. External Quality Assessment Reviews are carried out at least once in every five years by qualified professionals from an external organisation.

The professional competence of the Bank's internal auditor is maintained or upgraded through training programmes, conferences and seminars that provide updates on auditing techniques, regulations and banking products and services.

An annual audit plan is developed under a structured risk assessment approach that examines all of the Bank's activities and entities, their level of inherent risk and control effectiveness against the various risk types. Audit projects are identified and scoped based on this approach and audit resources are focused on the activities deemed to carry higher risks.

The scope of Audit encompasses the examination and evaluation of the adequacy and effectiveness of the Bank's system of internal controls, risk management procedures, governance processes and the quality of performance in carrying out assigned responsibilities. Audit may also conduct consulting services only at the request of management in accordance with Group Audit's Consulting Framework.

Audit work is substantially paperless with the in-house developed computerised audit work paper and resource management system.

The progress of corrective actions on outstanding audit issues is monitored monthly through a centralised Group-wide issue management system. Information on outstanding issues is categorised according to severity and monthly reports are sent to the senior management. All audit reports are copied to the Board Audit Committee, the external auditor and senior management. The regulators are also apprised of all relevant audit matters and may request for further information on audit matters at any time. Audit works closely with the external auditor and meets them regularly to discuss matters of mutual interest, to strengthen working relationships and to co-ordinate audit efforts. The external auditor reviews the effectiveness of the Bank's internal controls and risk management during an annual statutory audit. Material non-compliance with established practices and procedures and regulations, as well as internal control weaknesses noted during the audit, together with recommendations, are reported to the Board Audit Committee, which ensures that high-risk outstanding issues are dealt with in a timely manner.

The Head of Audit Greater China in Hong Kong reports directly to the Head of Group Audit in Singapore and the Board Audit Committee in Hong Kong, and administratively to the Chief Executive Officer in Hong Kong.

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**3 Capital requirements for different types of risk**

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

The capital adequacy ratios as at 31 December 2009 and 31 December 2008 were compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance.

Details of capital resources and capital adequacy ratios for the Bank are set out in Note 42(e) to the financial statements.

In 2009, the Bank has adopted the Foundation IRB approach for the calculation of the risk-weighted assets for credit risk. In 2008, the Bank has adopted the Basic approach for the calculation of the risk-weighted assets for credit risk. During the years of 2008 and 2009, the Bank has adopted the Standardised approaches for the calculation of risk-weighted assets for operational risk and market risk. As there are significant differences between Basic approach and Foundation IRB approach, the capital adequacy ratios as at 31 December 2009 and 31 December 2008 are not directly comparable. Certain comparative figures have not been provided where the current year is the first year of disclosure and the provision of comparative figures is impracticable.

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

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

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 3 Capital requirements for different types of risk (continued)

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

	2009 HK\$'000	2008 HK\$'000
<b>Credit risk:</b>		
IRB approach		
Retail exposures		
Residential mortgages	393,731	–
Qualifying revolving retail exposures	852,447	–
Wholesale exposures		
Sovereign exposures	102,995	–
Bank exposures	1,431,323	–
Corporate exposures	5,933,618	–
Other exposures	447,827	–
	<u>9,161,941</u>	<u>–</u>
Standardised approach		
On-balance sheet		
Public sector entity exposures	20,858	–
Bank exposures	415	–
Corporate exposures	491,745	–
Regulatory retail exposures	42,010	–
Other exposures which are not past due exposures	1,097,987	–
Past due exposures	42,363	–
Off-balance sheet		
Off-balance sheet exposures other than over-the-counter derivative transactions	36,425	–
Over-the-counter derivative transactions	2,784	–
	<u>1,734,587</u>	<u>–</u>
Basic approach		
On-balance sheet		
Residential mortgages	–	1,723,203
Sovereign exposures	–	38,335
Public sector entity exposures	–	45,369
Bank exposures	–	1,133,552
Cash items	–	304
Other exposures	–	7,577,771
Off-balance sheet		
Off-balance sheet exposures other than over-the-counter derivative transactions	–	387,744
Over-the-counter derivative transactions	–	218,135
	<u>–</u>	<u>11,124,413</u>
<b>Total capital requirements for credit risk</b>	<u><b>10,896,528</b></u>	<u><b>11,124,413</b></u>
<b>Market risk:</b>		
Standardised approach		
Interest rate exposures	56,188	123,215
Foreign exchange exposures	56,130	22,519
<b>Total capital requirements for market risk</b>	<u><b>112,318</b></u>	<u><b>145,734</b></u>
<b>Total capital requirements for operational risk</b>	<u><b>913,535</b></u>	<u><b>922,688</b></u>
<b>Total capital requirements</b>	<u><b>11,922,381</b></u>	<u><b>12,192,835</b></u>

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Credit risk assessed using IRB approach**

**(a) Internal rating system and process**

**Nature of exposures within IRB approach**

Retail exposures comprise residential mortgages and qualifying revolving retail exposures. 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 IRB approach. There is a robust governance process for the development and approval of a credit risk model. Credit risk models developed are validated by an independent risk unit in the Bank to ensure they are fit for purpose. The models are placed through a rigorous review process prior to endorsement by the Hong Kong Credit Risk Committee of the Bank and the Group Credit Risk Committee of DBSH. The models have also been approved by the Board Risk Management Committee of the Bank and the Board Risk Management Committee of DBSH before use.

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

**Use of internal estimates**

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

**Definitions of variables**

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

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

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

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

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Credit risk assessed using IRB approach (continued)**

**(a) Internal rating system and process (continued)**

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

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

For wholesale exposures (including corporate, bank and sovereign exposures), PD generated by models and/or rating templates for individual counterparty is reviewed by credit approvers. A Counterparty Risk Rating (“CRR”) is assigned by taking the counterparty’s PD and mapping it to the Bank’s internal CRR scale. The Bank applies the LGD determined by reference to the supervisory LGD estimates provided by the Hong Kong Monetary Authority (“HKMA”) based on the nature of the collateral for its Foundation IRB portfolios. 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.

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

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

Model validation process enables the Bank to reaffirm the continuing appropriateness of the models. The model validation process involves quantitative and qualitative assessment of the model, data, systems and governance, which involves: i) quantitative validations to assess a model’s discriminatory power, calibration and ratings stability analysis; ii) qualitative validations to address issues on model design, data integrity and internal use of a model; iii) 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 Audit.

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 4 Credit risk assessed using IRB approach (continued)

#### (a) Internal rating system and process (continued)

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

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

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 4 Credit risk assessed using IRB approach (continued)

#### (b) Summary of credit exposures by IRB calculation approach

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

	2009 HK\$'000
<b>Retail exposures</b>	
Retail IRB approach	
Residential mortgages	44,110,135
Qualifying revolving retail exposures	21,453,310
<b>Wholesale exposures</b>	
Foundation IRB approach	
Sovereign exposures	10,852,734
Bank exposures	84,971,317
Corporate exposures	54,734,609
Supervisory slotting criteria approach	
Specialised lending	15,226,366
<b>Other exposures</b>	
Specific risk-weight approach	7,155,792
	<u>238,504,263</u>

#### (c) Retail exposures

Retail portfolios are categorised into asset classes under the Retail IRB approach, namely Residential Mortgages and Qualifying Revolving Retail Exposures.

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

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 4 Credit risk assessed using IRB approach (continued)

#### (c) Retail exposures (continued)

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

##### Residential mortgages

EL% range	2009 Exposure amount HK\$'000
Up to 0.10%	42,457,821
> 0.10% to 0.50%	948,925
> 0.50%	640,254
Default	63,135
	<hr/>
	<b>44,110,135</b>

##### Qualifying revolving retail exposures

EL% range	2009 Exposure amount HK\$'000
Up to 7%	19,871,432
> 7% to 15%	849,572
> 15%	687,851
Default	44,455
	<hr/>
	<b>21,453,310</b>

#### (d) Wholesale exposures

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

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

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



# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 4 Credit risk assessed using IRB approach (continued)

#### (d) Wholesale exposures (continued)

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

Credit ratings under the Foundation IRB portfolios are reviewed on an annual basis at a minimum unless credit conditions require more frequent assessment. The Counterparty Risk Rating process is reinforced by the Facility Risk Rating System 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:

#### (i) Sovereign exposures

**2009**

Credit Risk Rating	PD range (%)	Exposure amount HK\$'000	Exposure-weighted average risk-weight (%)
1-3	0.00 – 0.10	<u>10,852,734</u>	12

#### (ii) Bank exposures

**2009**

Credit Risk Rating	PD range (%)	Exposure amount HK\$'000	Exposure-weighted average risk-weight (%)
1-3	0.03 – 0.10	74,383,633	16
4A/4B	0.10 – 0.33	8,192,687	51
5	0.33 – 0.47	1,199,754	71
6A/6B	0.47 – 1.11	1,052,567	79
7A-9	1.11 – 99.99	141,796	121
10A-11	100	880	596
Total		<u>84,971,317</u>	

**DBS BANK (HONG KONG) LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Credit risk assessed using IRB approach (continued)**

**(d) Wholesale exposures (continued)**

(iii) Corporate exposures

**2009**

<b>Credit Risk Rating</b>	<b>PD range (%)</b>	<b>Exposure amount HK\$'000</b>	<b>Exposure-weighted average risk-weight (%)</b>
1-3	0.03 – 0.10	1,124,396	22
4A/4B	0.10 – 0.33	1,989,266	52
5	0.33 – 0.47	1,633,215	69
6A/6B	0.47 – 1.11	2,329,308	77
7A-9	1.11 – 99.99	45,630,225	115
10A-11	100	2,028,199	69
Total		<b>54,734,609</b>	

(iv) Specialised lending

Specialised lending IRB portfolios represented 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.

**2009**

<b>Obligor grade</b>	<b>Exposure amount HK\$'000</b>	<b>Exposure-weighted average risk-weight (%)</b>
Strong	251,027	74
Good	7,820,114	95
Satisfactory	6,719,025	122
Weak	191,568	265
Default	244,632	–
Total	<b>15,226,366</b>	

**(e) Policies for establishing provisions**

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

**DBS BANK (HONG KONG) LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Credit risk assessed using IRB approach (continued)**

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

**Comparison of actual loss against expected loss**

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

<b>Exposure classes</b>	<b>Actual loss for the year ended 31 December 2009 HK\$'000</b>	<b>Expected loss as at 31 December 2008 HK\$'000</b>
Residential mortgages	889	26,999
Qualifying revolving retail exposures	116,259	294,898
Sovereign exposures	–	2,900
Bank exposures	–	27,126
Corporate exposures	483,401	820,812
	<u>600,549</u>	<u>1,172,735</u>

**Comparison of actual default rate against estimated probability of default**

<b>Exposure classes</b>	<b>Actual percentage of default for the year ended 31 December 2009 %</b>	<b>Estimated 1-year probability of default as at 31 December 2008 %</b>
Residential mortgages	0.12	0.26
Qualifying revolving retail exposures	0.87	1.04
Sovereign exposures	–	0.02
Bank exposures	–	0.67
Corporate exposures	2.12	3.00

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 2009.

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 5 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:

2009

	Total exposure HK\$'000	Total exposure after credit risk mitigation HK\$'000	Risk-weighted amount after credit risk mitigation HK\$'000
<b>On-balance sheet</b>			
Sovereign exposures	–	168,554	–
Public sector entity exposures	–	1,303,642	260,728
Bank exposures	5,188	5,188	5,188
Corporate exposures	6,625,268	6,146,818	6,146,818
Regulatory retail exposures	1,220,709	700,160	525,121
Other exposures which are not past due exposures	15,988,175	13,724,835	13,724,835
Past due exposures	414,777	414,777	529,539
	<u>24,254,117</u>	<u>22,463,974</u>	<u>21,192,229</u>
<b>Off-balance sheet</b>			
Off-balance sheet exposures other than over-the-counter derivative transactions	508,631	455,216	455,311
Over-the-counter derivative transactions	298,145	34,844	34,803
	<u>806,776</u>	<u>490,060</u>	<u>490,114</u>

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

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

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 6 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 include both financial and physical assets. Financial collateral consist of mainly cash deposits, debt securities and shares, while physical collateral include 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 42(a) to the financial statements. The Bank adopts the comprehensive approach for credit risk mitigation and the impact on PD or LGD is based on the same guidelines for Foundation IRB portfolios.

As at 31 December 2009, the credit and market risk concentrations within the credit risk mitigation used by the Bank are under a minimal level.

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

**2009**

	Exposure amount covered by recognised collateral HK\$'000	Exposure amount covered by recognised guarantee HK\$'000
<b>IRB approach</b>		
Corporate exposures	18,767,215	1,893,226
Bank exposures	109,735	–
Retail exposures	44,110,135	–
	<u>62,987,085</u>	<u>1,893,226</u>
<b>Standardised approach</b>		
Corporate exposures	310,434	168,016
Regulatory retail exposures	520,011	538
Other exposures which are not past due exposures	959,699	1,303,642
Past due exposures	65,582	12,543
Off-balance sheet exposures other than over-the-counter derivative transactions	53,415	–
Over-the-counter derivative transactions	263,301	–
	<u>2,172,442</u>	<u>1,484,739</u>
<b>Total</b>	<u><u>65,159,527</u></u>	<u><u>3,377,965</u></u>

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 7 Counterparty credit risk-related exposures

The analysis of the gross total positive replacement values, credit equivalent amounts after taking into account the recognised collateral and the risk-weighted amounts for over-the-counter derivative contracts as at 31 December is as follows:

	2009 HK\$'000
<b>Exposures under IRB approach</b>	
Gross total positive replacement values	<u>3,048,358</u>
Credit equivalent amounts	
– Bank exposures	2,920,293
– Corporate exposures	<u>2,231,502</u>
	5,151,795
Less: Collateral amounts	
– Recognised financial collateral	(323,255)
– Other eligible collateral	<u>(233,699)</u>
	<u>4,594,841</u>
<b>Exposures under Standardised approach</b>	
Gross total positive replacement values	<u>173,655</u>
Credit equivalent amounts	
– Exchange rate contracts	77,435
– Interest rate contracts	1,575
– Equity contracts	<u>219,135</u>
	298,145
Less: Recognised financial collateral	<u>(263,301)</u>
	<u>34,844</u>
	2008 HK\$'000
<b>Exposures under Basic approach</b>	
Gross total positive replacement values	<u>3,461,798</u>
Credit equivalent amounts	
– Exchange rate contracts	3,507,227
– Interest rate contracts	1,479,410
– Equity contracts	<u>1,544,085</u>
	6,530,722

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 7 Counterparty credit risk-related exposures (continued)

	2009 Risk-weighted amount HK\$'000
<b>Exposures under IRB approach</b>	
Bank exposures	462,100
Corporate exposures	<u>2,354,515</u>
	<b>2,816,615</b>
<b>Exposures under Standardised approach</b>	
Exchange rate contracts	32,646
Equity contracts	<u>2,157</u>
	<b>34,803</b>
	<b><u>2,851,418</u></b>
	2008 Risk-weighted amount HK\$'000
<b>Exposures under Basic approach</b>	
Exchange rate contracts	2,151,426
Interest rate contracts	433,022
Equity contracts	<u>142,239</u>
	<b>2,726,687</b>

There are no outstanding repo-style transactions and credit derivative contracts which create exposures to counterparty credit risk as at 31 December 2009 (2008: Nil).

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

Counterparty credit exposure is mitigated by recognition of eligible collateral, effects of which have been included in the regulatory capital calculations where appropriate.

### 8 Liquidity ratio

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

	2009	2008
Average liquidity ratio	<b><u>33.3%</u></b>	<b><u>33.2%</u></b>

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

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 9 Segmental information

#### (a) Segmental information by class of business

	Group			Total HK\$'000
	Commercial and retail banking HK\$'000	Treasury HK\$'000	Subsidiaries, overseas branch and others HK\$'000	
<b>2009</b>				
Total income	<u>5,223,992</u>	<u>908,498</u>	<u>207,897</u>	<u>6,340,387</u>
Profit before impairment allowances for credit losses	<u>2,486,011</u>	<u>788,211</u>	<u>222,509</u>	<u>3,496,731</u>
Profit before income tax	<u>1,903,621</u>	<u>789,262</u>	<u>172,782</u>	<u>2,865,665</u>
Operating assets	<u>132,091,794</u>	<u>85,719,891</u>	<u>8,244,201</u>	<u>226,055,886</u>
<b>2008</b>				
Total income	<u>5,760,470</u>	<u>706,775</u>	<u>475,499</u>	<u>6,942,744</u>
Profit before impairment allowances for credit losses	<u>2,632,412</u>	<u>478,457</u>	<u>206,894</u>	<u>3,317,763</u>
Profit before income tax	<u>1,302,050</u>	<u>439,602</u>	<u>342,597</u>	<u>2,084,249</u>
Operating assets	<u>133,753,891</u>	<u>75,328,709</u>	<u>7,947,392</u>	<u>217,029,992</u>

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

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

#### (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.



# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 9 Segmental information (continued)

#### (c) Cross-border claims

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

HK\$' million	Group			Total
	Banks	Public sector entities	Others	
<b>2009</b>				
Asia Pacific excluding Hong Kong	55,523	161	5,031	60,715
North and South America	5,799	1,454	542	7,795
Europe	6,930	4	428	7,362
Others	10	160	711	881
	<b>68,262</b>	<b>1,779</b>	<b>6,712</b>	<b>76,753</b>
<b>2008</b>				
Asia Pacific excluding Hong Kong	47,919	768	6,070	54,757
North and South America	5,295	897	629	6,821
Europe	6,266	4	542	6,812
Others	223	75	902	1,200
	<b>59,703</b>	<b>1,744</b>	<b>8,143</b>	<b>69,590</b>

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

**DBS BANK (HONG KONG) LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**10 Advances to customers**

**(a) Advances to customers by loan usage**

	<b>Bank</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Outstanding balance HK\$'000</b>	<b>Balance covered by collateral HK\$'000</b>	<b>Outstanding balance HK\$'000</b>	<b>Balance covered by collateral HK\$'000</b>
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	1,463,041	1,458,321	902,072	896,596
– Property investment	23,639,903	23,171,959	25,620,903	24,971,374
– Financial concerns	582,349	395,021	596,693	420,307
– Stockbrokers	203,525	103,024	24,314	22,514
– Wholesale and retail trade	2,976,874	2,587,808	3,404,739	2,491,595
– Manufacturing	9,629,377	6,262,252	9,224,981	5,067,768
– Transport and transport equipment	11,555,777	11,281,874	11,573,354	10,915,306
– Recreational activities	44,452	38,136	188	188
– Information technology	109,125	94,466	125,419	106,444
– Others	4,563,735	3,272,598	4,775,759	3,696,116
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	1,323,617	1,323,617	1,606,199	1,606,199
– Loans for the purchase of other residential properties	41,082,605	41,082,605	35,463,910	35,430,996
– Credit card advances	5,462,108	–	5,112,615	–
– Others	6,332,766	2,644,779	6,310,215	2,898,152
	<b>108,969,254</b>	<b>93,716,460</b>	104,741,361	88,523,555
Trade finance	20,205,143	12,663,471	24,411,494	14,152,766
Loans for use outside Hong Kong	4,048,520	3,244,197	5,854,186	4,598,518
	<b><u>133,222,917</u></b>	<b><u>109,624,128</u></b>	<b><u>135,007,041</u></b>	<b><u>107,274,839</u></b>

**DBS BANK (HONG KONG) LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**10 Advances to customers (continued)**

**(b) Overdue advances to customers**

The overdue advances are analysed as follows:

	<b>Bank</b>			
	<b>2009</b>	<b>% of gross</b>	<b>2008</b>	<b>% of gross</b>
	<b>HK\$'000</b>	<b>advances to</b>	<b>HK\$'000</b>	<b>advances to</b>
		<b>customers</b>		<b>customers</b>
Six months or less but over three months	<b>253,909</b>	<b>0.19</b>	508,450	0.38
One year or less but over six months	<b>683,426</b>	<b>0.51</b>	580,119	0.43
Over one year	<b>1,449,375</b>	<b>1.09</b>	753,987	0.56
	<b><u>2,386,710</u></b>	<b><u>1.79</u></b>	<b><u>1,842,556</u></b>	<b><u>1.37</u></b>
Individual impairment allowances made in respect of the above overdue advances	<b><u>1,664,537</u></b>		<b><u>1,130,549</u></b>	
Current market value of collateral held against the covered portion of the above overdue advances	<b><u>1,345,531</u></b>		<b><u>1,290,634</u></b>	
Covered portion of the above overdue advances	<b><u>651,794</u></b>		<b><u>741,876</u></b>	
Uncovered portion of the above overdue advances	<b><u>1,734,916</u></b>		<b><u>1,100,680</u></b>	

**(c) Rescheduled advances**

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

	<b>Bank</b>			
	<b>2009</b>	<b>% of gross</b>	<b>2008</b>	<b>% of gross</b>
	<b>HK\$'000</b>	<b>advances to</b>	<b>HK\$'000</b>	<b>advances to</b>
		<b>customers</b>		<b>customers</b>
Rescheduled advances	<b><u>359,932</u></b>	<b><u>0.27</u></b>	<b><u>277,743</u></b>	0.21

**(d) Repossessed assets**

As at 31 December 2009, repossessed assets of the Bank amounted to HK\$107,585,000 (2008: HK\$256,644,000).

**DBS BANK (HONG KONG) LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**10 Advances to customers (continued)**

**(e) Non-bank Mainland exposures**

<b>Bank</b>	<b>On-balance sheet exposures HK\$'000</b>	<b>Off-balance sheet exposures HK\$'000</b>	<b>Total HK\$'000</b>	<b>Individual impairment allowances HK\$'000</b>
<b>2009</b>				
Mainland entities	<b>154,700</b>	<b>36,314</b>	<b>191,014</b>	<b>20,784</b>
Companies and individuals outside Mainland where the credit is granted for use in Mainland	<b>3,969,759</b>	<b>1,392,269</b>	<b>5,362,028</b>	<b>357,163</b>
Other counterparties where the exposures are considered to be non-bank Mainland exposures	<b>136,605</b>	<b>27,503</b>	<b>164,108</b>	<b>–</b>
	<b><u>4,261,064</u></b>	<b><u>1,456,086</u></b>	<b><u>5,717,150</u></b>	<b><u>377,947</u></b>
<b>2008</b>				
Mainland entities	191,824	24,152	215,976	20,433
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,713,578	1,227,328	6,940,906	409,802
Other counterparties where the exposures are considered to be non-bank Mainland exposures	117,800	26,084	143,884	–
	<b><u>6,023,202</u></b>	<b><u>1,277,564</u></b>	<b><u>7,300,766</u></b>	<b><u>430,235</u></b>

# DBS BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

### 11 Currency concentration

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

HK\$'million	USD	CNY	Others	Total
<b>2009</b>				
<b>Hong Kong dollar equivalents</b>				
Spot assets	45,545	1,435	17,357	64,337
Spot liabilities	(51,280)	(1,435)	(23,910)	(76,625)
Forward purchases	52,220	9,794	10,682	72,696
Forward sales	(45,630)	(9,503)	(3,821)	(58,954)
Net options position	(24)	–	(50)	(74)
Net long non-structural position	<u>831</u>	<u>291</u>	<u>258</u>	<u>1,380</u>
Net structural position	<u>–</u>	<u>28</u>	<u>(44)</u>	<u>(16)</u>
<b>2008</b>				
<b>Hong Kong dollar equivalents</b>				
Spot assets	57,475	1,371	13,265	72,111
Spot liabilities	(47,328)	(1,368)	(21,060)	(69,756)
Forward purchases	63,744	3,185	13,514	80,443
Forward sales	(73,126)	(3,218)	(5,808)	(82,152)
Net options position	(2)	2	1	1
Net long / (short) non-structural position	<u>763</u>	<u>(28)</u>	<u>(88)</u>	<u>647</u>
Net structural position	<u>–</u>	<u>28</u>	<u>(59)</u>	<u>(31)</u>

The net structural position as at 31 December 2009 comprised the Group's unremitted earnings of HK\$44,000,000 equivalent (2008: HK\$59,000,000) from a Macau Pataca investment in Macau, and Renminbi investments of HK\$28,000,000 equivalent (2008: HK\$28,000,000) in the Mainland China.

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