DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

ANNUAL REPORT 2012

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CONTENTS

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2012

MOP

Assets	Total assets	Provision, accumulated depreciation and impairments	Net total assets
Cash	18,000,501.88		18,000,501.88
Deposits with AMCM	131,182,893.53		131,182,893.53
Interbank assets with local credit institutions	75,147,820.74		75,147,820.74
Interbank assets with credit institutions abroad	122,475,209.81		122,475,209.81
Loans and advances	3,054,906,827.72	42,521,365.64	3,012,385,462.08
Applications in local credit institutions	419,971,706.99		419,971,706.99
Equipment	1,309,679.12	675,304.72	634,374.40
Installation expenditure	3,076,239.58	2,920,905.00	155,334.58
Other fixed assets	754,222.39	710,805.84	43,416.55
Internal and adjustment accounts	380,870,304.16		380,870,304.16
Total	4,207,695,405.92	46,828,381.20	4,160,867,024.72

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2012

MOP

Liabilities	**Sub-total**	**Total**
Demand deposits and saving accounts	1,556,365,134.38	
Call deposits	84,363.49	
Time deposits	776,786,620.26	2,333,236,118.13
Deposits from public sector entities	6,440.00	
Interbank liabilities to local credit institutions	2,644.21	
Interbank liabilities to credit institutions abroad	1,304,198,741.83	
Cheques and orders payable	75,230,312.23	
Other liabilities	319,621,169.08	1,699,059,307.35
Internal and adjustment accounts	45,322,079.76	
Exposure provisions	35,796,835.52	81,118,915.28
Profit & loss for the year	47,452,683.96	47,452,683.96
Total		4,160,867,024.72

MOP

Memorandum accounts	**Total**
Bills for collection	37,772,485.79
Collaterals	10,995,884,000.00
Guarantees on account of customers	320,465,841.20
Letter of credit outstanding	381,684,370.44
Forward exchange contracts purchase	430,979,747.60
Forward exchange contracts sale	430,979,747.60
Other memorandum items	2,636,395,315.58

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 2012

Operating profit & loss

MOP

Debit	**Amount**	**Credit**	**Amount**
Costs of credit operations	11,422,766.94	Income form credit operations	78,303,184.31
Personnel costs		Income from banking services	15,438,345.21
Staff remuneration	14,883,959.97	Income from other banking services	7,962,267.00
Staff welfare	1,350,992.58	Other banking income	4,043,867.15
Other staff costs	491,986.22		
Third party supply	715,934.16		
Third party services	16,511,337.71		
Other banking costs	1,813,488.76		
Taxation	166,170.00		
Costs of non-banking operations	147,788.00		
Depreciation allowances	516,878.09		
Provision allowances	6,204,988.98		
Operating profit	51,521,372.26		
Total	105,747,663.67	Total	105,747,663.67

Profit & loss account

MOP

Debit	**Amount**	**Credit**	**Amount**
Operating loss	-	Operating profit	51,521,372.26
Loss related to previous year	-	Profit related to previous years	2,394,311.70
Exceptional losses	-	Exceptional profits	-
Profit tax provision	6,463,000.00	Provisions used up	-
Profit for the year	47,452,683.96	Loss for the year	-
Total	53,915,683.96	Total	53,915,683.96

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BUSINESS REPORT

The Branch recorded a net profit of MOP47 million in 2012, up 17% as compared with last year; of which net interest income increased by 9% to MOP67 million; while other operating income decreased by 3% to MOP27 million. Total loans and advances decreased by 9% to MOP3.05 billion; total customer deposits increased by 11% to MOP2.33 billion and net total assets slightly decreased by 4% to MOP4.16 billion.

DBS BANK (HONG KONG) LIMITED
MACAU BRANCH

INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT OF DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

We have audited the financial statements of DBS Bank (Hong Kong) Limited - Macau Branch (the "Branch") set out on pages 6 to 22 which comprise the balance sheet as at 31 December 2012, and the income statement, statement of changes in reserve and cash flow statement for the year then ended, and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the financial statements

The management is responsible for the preparation and the true and fair presentation of the financial statements in accordance with Financial Reporting Standards issued by the Government of the Macao Special Administrative Region. This responsibility includes designing, implementing and maintaining appropriate 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; making appropriate accounting estimates that are reasonable in the circumstances; and keeping proper and accurate accounting records.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement 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 the audit in accordance with Auditing Standards and Technical Standards on Auditing issued by the Government of the Macao Special Administrative Region. Those standards require that the auditor complies with relevant ethical requirements and plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit includes performing appropriate audit procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures are selected according to the auditor's professional 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 management, 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.

Audit opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of DBS Bank (Hong Kong) Limited - Macau Branch as at 31 December 2012 and of its operating results and cash flows for the year then ended in accordance with the Financial Reporting Standards issued by the Government of the Macao Special Administrative Region.

Tsang Cheong Wai
Registered Auditor
PricewaterhouseCoopers
Macao, 25 January 2013

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	**2012 MOP'000**	2011 MOP'000
Interest income		**78,207**	70,955
Interest expense		**(11,423)**	(9,659)
Net interest income		**66,784**	61,296
Net fee and commission income	4	**18,856**	15,712
Other income	4	**7,024**	11,077
Operating income		**92,664**	88,085
Operating expenses	5	**(34,938)**	(32,343)
Operating profit before provisions		**57,726**	55,742
Provision for bad and doubtful debts	11	**(3,810)**	(9,771)
Profit before taxation		**53,916**	45,971
Taxation	6	**(6,463)**	(5,254)
Profit for the year		**47,453**	40,717

Cheng Kwong Moon
Bank Representative

Pun Kai
Bank Representative

The notes on pages 11 to 22 are an integral part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET
AS AT 31 DECEMBER 2012

	Notes	**2012**	2011
		MOP'000	MOP'000
Assets			
Cash and balances with banks	7	**124,413**	86,532
Deposits with Autoridade Monetaria de Macao ("AMCM")	8	**131,183**	144,842
AMCM Monetary bills	9	**419,972**	399,965
Advances to customers	10	**2,976,589**	3,271,397
Other assets	13	**350,005**	281,552
Property, plant and equipment	14	**833**	831
		4,002,995	4,185,119
Liabilities			
Deposits from customers	15	**2,333,245**	2,097,797
Amount due to Head Office	12	**1,212,989**	1,684,672
Other liabilities	16	**402,782**	356,052
Current tax liabilities		**6,526**	5,881
		3,955,542	4,144,402
Reserve		**47,453**	40,717
Total liabilities and reserve		**4,002,995**	4,185,119

Cheng Kwong Moon
Bank Representative

Pun Kai
Bank Representative

The notes on pages 11 to 22 are an integral part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

STATEMENT OF CHANGES IN RESERVE
AS AT 31 DECEMBER 2012

	Notes	**2012** **MOP'000**	2011 MOP'000
Balance at 1 January		**40,717**	48,380
Profit for the year		**47,453**	40,717
Transfer to Head Office	17	**(40,717)**	(48,380)
Balance at 31 December		**47,453**	40,717

The notes on pages 11 to 22 are an integral part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 MOP'000	2011 MOP'000
Cash flow from operating activities			
Profit before taxation		53,916	45,971
Depreciation	14	517	815
Provision for bad and doubtful debts	11	3,810	9,771
Advances to customers written off	11	(2,128)	-
Net gain on disposal of property, plant and equipment		-	(18)
Decrease/(increase) in advances to customers		293,126	(730,021)
(Increase)/decrease in other assets		(68,453)	36,482
Increase/(decrease) in deposits from customers		235,448	(292,884)
Increase/(decrease) in other liabilities		46,730	(92,872)
(Decrease)/increase in amount due to Head Office		(471,683)	944,617
Cash inflow/(outflow) from operating activities before taxation		91,283	(78,139)
Macao complementary tax paid		(5,818)	(5,984)
Cash inflow/(outflow) from operating activities		85,465	(84,123)
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(519)	(331)
Proceeds from disposal of property, plant and equipment		-	216
Net cash outflow from investing activities		(519)	(115)
Cash outflow from repatriation of accumulated profits	17	(40,717)	(48,380)
Increase/(decrease) in cash and cash equivalents		44,229	(132,618)
Cash and cash equivalents at 1 January		631,339	763,957
Cash and cash equivalents at 31 December		675,568	631,339

The notes on pages 11 to 22 are an integral part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Analysis of the balances of cash and cash equivalents:

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	Notes	**2012**	2011
		MOP'000	MOP'000
Cash and balances with banks	7	**124,413**	86,532
Deposits with AMCM	8	**131,183**	144,842
AMCM monetary bills with original maturity within one month	9	**419,972**	399,965
		675,568	631,339

The notes on pages 11 to 22 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

The principal activities of DBS Bank (Hong Kong) Limited - Macau Branch (the "Branch") are the provision of commercial and retail banking services to its customers.

The Branch's head office is DBS Bank (Hong Kong) Limited ("Head Office") and is a bank incorporated in Hong Kong Special Administrative Region. The address of the Branch's registered office is Rua Santa Clara 5-7E, Lojas C, D, Edif. Ribeiro Macao. DBS Bank Ltd. is an intermediate holding company of DBS Bank (Hong Kong) Limited.

These financial statements have been approved for issue by the Branch's management on 25 January 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, otherwise unless stated.

(a) Basis of preparation

The financial statements of the Branch are prepared in accordance with Financial Reporting Standards issued by the Government of Macao Special Administrative Region under Administrative Regulation No.25/2005 on 9th December 2005 ("MFRS"). The financial statements are prepared on the historical cost convention, as modified by the revaluation of derivative financial instruments.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Branch and when the revenue can be measured reliably, on the following bases:

(i) Interest income

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

Interest income is not recognised on non-accrual loans. Non-accrual loans represent loans and advances to customers, the repayments of which are overdue for more than three months or are overdue for less than three months but the management has doubt on the ultimate recoverability of principal or interest in full.

2 Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

(ii) Fee and commission income

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 recognized over the period which the related service is provided or credit risk is undertaken.

(c) Advances to customers and other assets

Advances to customers, interest receivable and other assets are stated in the balance sheet after deducting specific and general provisions for bad and doubtful debts.

(d) Provision for bad and doubtful debts

The Branch internally classifies advances to customers into five categories largely based on an assessment of the borrowers' capacity to repay and on the degree of doubt about the collectability of interest and/or principal. The periods that payments of interest and/or principal have been overdue are also taken into account when classifying the advances to customers.

Specific provisions are made against the principal amounts of loans net of the value of any tangible security held where, in the opinion of the management of the Branch, recoverability of principal or interest in full is uncertain. A general provision of 1% for all advances to customers and contingent liabilities is made. General provision relates to exposures not separately identified but known from experience to exist in the credit portfolio. The provisions are made with reference to the requirements of Autoridade Monetaria de Macao ("AMCM"), and are based on estimates made by the management of the Branch, which are reviewed periodically.

Both specific and general provisions are deducted from "Advances to customers" in the balance sheet. When there is no realistic prospect of recovery, the outstanding debt is written off.

(e) AMCM monetary bills

Monetary bills are debt securities issued by the AMCM. These securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for diminution in their value which is other than temporary. The amortisation of premiums and discounts arising on acquisition of monetary bills is included as part of interest income. Provisions are made for the amount of the carrying value which the Branch does not expect to recover and are recognised as an expense in the income statement as they arise.

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended uses. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of those assets.

Depreciation is calculated using the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Furniture, fixtures and equipment	3 - 7.5 years
Motor vehicles	5 years

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

(g) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Branch are measured using the currency of the primary economic environment in which the Branch operates (the "functional currency"). The financial statements are presented in Macao Official Patacas ("MOP"), which is the Branch's presentation currency and functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(h) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash and balances with banks, deposits with AMCM and AMCM Monetary bills.

2 Summary of significant accounting policies (continued)

(i) 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.

(j) Current and deferred taxes

Current income tax for current and prior periods is recognized 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 by the balance sheet date.

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(k) Derivative financial instruments

Derivative financial instruments arise from foreign exchange rate contracts and option transactions undertaken by the Branch in the foreign exchange market. Derivative transactions measured at fair value and classified as other assets and other liabilities in the balance sheet. The changes in fair value are recognised in the income statement.

(l) Employee benefits

(i) Pension obligations

The Branch operates a defined contribution plan. The Branch pays contribution to the administered pension service provider according to the plan rules. The Branch has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(ii) Entitlements of employee leave and other benefits

Employee entitlements to annual leave are recognised when they accrued to employees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting estimates and assumptions

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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) Provision for bad and doubtful debts

The Branch periodically reviews its loan portfolios to assess the existing specific and general provisioning levels. In determining whether a provision for advances to customers should be recorded, the Branch makes reference to the requirements of AMCM and the classification of advances to customers which are based on the management's assessment of the potential losses on those identified advances to customers.

(b) Income taxes

Judgement is involved in determining the provision for income taxes. The Branch recognises liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due.

4 Net fee and commission income and other income

	2012	2011
	MOP'000	MOP'000
Fee and commission income	**20,517**	17,348
Fee and commission expense	**(1,661)**	(1,636)
Net fee and commission income	**18,856**	15,712
Gains less losses arising from foreign exchange transactions	**2,884**	3,612
Others	**4,140**	7,465
Other income	**7,024**	11,077

5 Operating expenses

	Note	**2012**	2011
		MOP'000	MOP'000
Salaries and other staff costs		**15,986**	15,824
Computer charges		**4,460**	2,445
Rent and rates		**2,856**	2,832
Management service fees		**3,529**	3,667
Auditor's remuneration		**277**	238
Depreciation	14	**517**	815
Others		**7,313**	6,522
		34,938	32,343

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Taxation

Current tax comprises of Macao complementary tax which is levied at progressive rates ranging from 3% to 9% on the taxable income above MOP32,000 but below MOP300,000, and thereafter at a fixed rate at 12%. For the years 2012 and 2011, a special complementary tax incentive allowed the tax free income threshold to increase from MOP32,000 to MOP200,000 with the next MOP100,000 of profit being taxed at a fixed rate of 9% and thereafter at a fixed rate of 12%. The tax on the Branch's profit before taxation differs from the theoretical amount that would arise using the Macao complementary tax rate applicable to profits of the Branch and as follows:

	2012 MOP'000	2011 MOP'000
Profit before taxation	**53,916**	45,971
Tax calculated at 12%	**6,470**	5,517
Effect of progressive tax rate before 12%	**(3)**	(3)
Special complementary tax incentives	**(24)**	(24)
Expenses not deductible for taxation purposes	**11**	345
Under/(over) provision in prior years	**9**	(581)
Taxation charge	**6,463**	5,254

No deferred taxation has been provided as there were no significant timing differences at the balance sheet date (2011: Nil).

7 Cash and balance with banks

	2012 MOP'000	2011 MOP'000
Cash in hand	**18,001**	17,648
Balances with banks	**106,412**	68,884
	124,413	86,532

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Deposits with AMCM

	2012 **MOP'000**	2011 MOP'000
Balance with AMCM	**131,183**	144,842

According to the statutory requirement, the Branch is required to maintain a minimum deposit balance with AMCM for liquidity purposes. The required weekly average of the MOP current deposit balance should not be less than 70% of the aggregate of the following amount:

3% on all liabilities which are repayable on demand;
2% on all liabilities which are repayable within 3 months (3 months inclusive) except for those already counted in (a);
1% on all liabilities which are repayable beyond 3 months.

At 31 December 2012, the minimum deposit required were MOP52,876,000 (2011: MOP 41,544,000).

9 AMCM monetary bills

	2012 **MOP'000**	2011 MOP'000
Monetary bills issued by AMCM, at amortised cost	**419,972**	399,965

10 Advances to customers

	2012 **MOP'000**	2011 MOP'000
Loans and advances to customers	**2,348,920**	2,297,767
Trade bills	**705,987**	1,050,266
Less: Specific provision (note 11)	**(42,521)**	(38,447)
General provision (note 11)	**(35,797)**	(38,189)
	2,976,589	3,271,397

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Provision for bad and doubtful debts

	Specific provision MOP'000	General provision MOP'000	Total MOP'000
2012			
At 1 January 2012	**38,447**	**38,189**	**76,636**
Charge to the income statement	**6,202**	**(2,392)**	**3,810**
Amounts written off	**(2,128)**	**-**	**(2,128)**
At 31 December 2012 (note 10)	**42,521**	**35,797**	**78,318**
2011			
At 1 January 2011	35,980	30,885	66,865
Charge to the income statement	2,467	7,304	9,771
At 31 December 2011 (note 10)	38,447	38,189	76,636

12 Amount due to Head Office

During the year, the Branch entered into transactions with Head Office in the ordinary course of its banking business.

All balances are unsecured, interest free and repayable on demand except for balances denominated in currencies other than Hong Kong dollar and Macao Patacas, which bear deposit/loan interest rates as determined from time to time by Head Office.

13 Other assets

	2012 MOP'000	2011 MOP'000
Accrued interest	**2,733**	3,213
Revaluation on derivative financial instruments (note 18)	**6,600**	17,079
Other accounts	**340,672**	261,260
	350,005	281,552

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Property, plant and equipment

	Furniture, fixtures and equipment MOP'000	**Motor vehicle MOP'000**	**Total MOP'000**
Cost:			
At 1 January 2012	**4,621**	**-**	**4,621**
Additions	**519**	**-**	**519**
At 31 December 2012	**5,140**	**-**	**5,140**
Accumulated depreciation:			
At 1 January 2012	**3,790**	**-**	**3,790**
Charge for the year	**517**	**-**	**517**
At 31 December 2012	**4,307**	**-**	**4,307**
Net book value:			
At 31 December 2012	**833**	**-**	**833**

	Furniture, fixtures and equipment MOP'000	Motor vehicle MOP'000	Total MOP'000
Cost:			
At 1 January 2011	4,497	754	5,251
Additions	331	-	331
Disposals	(207)	(754)	(961)
At 31 December 2011	4,621	-	4,621
Accumulated depreciation:			
At 1 January 2011	3,248	490	3,738
Charge for the year	690	125	815
Disposals	(148)	(615)	(763)
At 31 December 2011	3,790	-	3,790
Net book value:			
At 31 December 2011	831	-	831

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Deposits from customers

	2012	2011
	MOP'000	MOP'000
Demand deposits and current accounts	**404,128**	355,772
Savings deposits	**1,152,246**	834,087
Time and call deposits	**776,871**	907,938
	2,333,245	2,097,797

16 Other liabilities

	2012	2011
	MOP'000	MOP'000
Accrued interest	**814**	906
Revaluation on derivative financial instruments (note 18)	**6,600**	17,079
Other liabilities and provisions	**395,368**	338,067
	402,782	356,052

17 Repatriation of accumulated profits to Head Office

During the year, the Branch repatriated accumulated profits of MOP40,717,020 (2011: MOP48,380,419) to Head Office.

18 Derivative financial instruments

The following is an analysis of the aggregate notional amount and fair value of each significant type of derivative transactions:

		Fair value	
	Notional amount MOP'000	**Assets MOP'000**	**Liabilities MOP'000**
31 December 2012			
Forwards	**430,980**	**2,051**	**2,051**
Exchange rate options	**2,633,101**	**4,549**	**4,549**
		6,600	**6,600**

18 Derivative financial instruments (continued)

	Notional amount MOP'000	Fair value Assets MOP'000	Fair value Liabilities MOP'000
31 December 2011			
Forwards	26,421	96	96
Exchange rate options	860,702	16,983	16,983
		17,079	17,079

The Branch enters into forwards and exchange rate options to meet customer demands and enters into offsetting derivatives with Head Office. These derivatives are measured at fair value. Unrealised gains and losses are included in the other assets and other liabilities as detailed in note 13 and note 16 to the financial statements.

19 Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	2012 MOP'000	2011 MOP'000
Transaction-related contingencies	**307,638**	306,084
Trade-related contingencies	**394,512**	224,803
Other commitments which are unconditionally cancellable	**3,019,978**	2,148,757
	3,722,128	2,679,644

(b) Lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases for land and building are as follows:

	2012 MOP'000	2011 MOP'000
Within 1 year	**431**	1,018
After 1 year but within 5 years	**-**	420
	431	1,438

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Related party transactions

The following is a summary of significant related party transactions which are carried out in the normal course of business:

	2012 **MOP'000**	2011 MOP'000
Interest income from Head Office (note a)	**1,583**	1,905
Interest expense to Head Office (note a)	**3,253**	2,940
Management fee expense paid to Head Office (note b)	**3,529**	3,667
Information technology charges paid to Head Office (note c)	**1,754**	1,072
Rent paid to Head Office (note c)	**1,129**	1,129
Expense paid to Head Office/intermediate holding company (note d)	**3,929**	2,930
Service fee income and expense reimbursement received from Head Office (note e)	**2,612**	2,612
Commission income received from the branch of intermediate holding company (note f)	**1,277**	-
Service fee income received on Private Banking business from Head Office (note g)	**287**	3,278

Notes:

(a) The interest rates for the transactions between the Branch and Head Office are priced at the prevailing market rates at the time of each transaction.

(b) The Branch paid management fee to Head Office for general assistance and support services at an agreed fee between both parties which is revised on an annual basis.

(c) The Branch received information technology services and rented premises from Head Office during the year at an agreed fee between both parties which is revised on an annual basis.

(d) The Branch received support from Head Office/intermediate holding company in the normal course of business and the related expenses are charged by Head Office/intermediate holding company on a cost plus basis.

(e) The Branch provided certain banking-related service, office premises to Head Office at a fixed amount per month and received expense reimbursement from Head Office at cost.

(f) Commission income received on derivative financial instruments transacted with the branch of intermediate holding company.

(g) The private banking unit of the Branch provided business referral services to Head Office and received a service fee income from Head Office which was charged on a cost plus basis.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION

The following disclosures are prepared in accordance with the "Guideline on Disclosure of Financial Information".

1 Related party transactions

DBS Bank (Hong Kong) Limited is the Branch's Head Office and DBS Bank Ltd. is an intermediate holding company of DBS Bank (Hong Kong) Limited.

As part of the Branch's normal course of business, it enters into various transactions with Head Office and intermediate holding companies on normal commercial terms. These transactions include interbank placements, taking of deposits and derivative financial instruments.

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

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

(i) Income and expenses with Head Office and intermediate holding companies:

	2012	2011
	MOP'000	MOP'000
Interest income	**1,583**	1,905
Interest expense	**(3,253)**	(2,940)
Net fee and commission income	**1,277**	-
Other income	**2,899**	5,890
Total expenses charged	**(10,341)**	(8,798)

(ii) Balances with Head Office and intermediate holding companies as at 31 December:

	2012	2011
	MOP'000	MOP'000
Other assets	**3,255**	8,746
	3,255	8,746
Amount due to Head Office	**1,212,989**	1,684,672
Other liabilities	**5,526**	8,741
	1,218,515	1,693,413

(iii) Contract/notional amounts of derivative financial instruments with Head Office and intermediate holding company as at 31 December:

	2012	2011
	MOP'000	MOP'000
Forwards	**217,259**	13,189
Exchange rate options	**894,846**	207,290
	1,112,104	220,479

2 Financial Risk Management

Risk governance

Under the Head Office'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 Head Office sets risk 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 Risk Executive Committee, the Hong Kong Credit Risk Committee, the Hong Kong Market & Liquidity Risk 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 and control limits for approval in line with the Head Office'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 Head Office 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 Head Office 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, limits 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 Head Office 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 Head Office 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 Head Office, 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 Head Office enters into collateralised margin transactions with counterparties. The Head Office currently uses the current exposure method for the purpose of providing capital for such counterparty exposures. Internally, the Head Office measures counterparty credit exposure using the mark-to-market exposure with an appropriate add-on for future potential exposures.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 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 Head Office 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 Head Office. Business units and credit risk managers have the responsibility to ensure that credits are properly assessed and classified. Business units also assume the responsibility to ensure all crucial information is included in the application process for the purpose of assessment and approval.

The Head Office adopts a multi-level credit approval process requiring loan approval at successively higher levels and / or committees (as delegated) depending on, amongst 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 Head Office 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 Head Office 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 Head Office considers the collateral it has taken as well diversified.

(ii) Master netting arrangements

The Head Office 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 Head Office may use guarantees, credit derivatives and credit insurance as credit risk mitigating factors. Whilst the Head Office 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.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) *Credit risk (continued)*

The maximum exposure to credit risk for financial assets recognised on the balance sheet is the carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount the Head Office would have to pay if the instrument is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

Analysis of collateral

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

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

Balances with banks, placements with and advances to banks, trading securities and financial investments
Collateral is generally not sought for these assets.

Positive fair values for derivative financial instruments
The Head Office maintains collateral agreements and enters into master netting agreements with some of the counterparties for derivative transactions.

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

Advances to customers by credit quality

	2012 MOP'000	2011 MOP'000
Neither past due nor impaired	**2,970,694**	3,249,978
Past due but not impaired	**18,466**	30,382
Impaired	**65,747**	67,672
	3,054,907	3,348,032

Past due loans are customer loans overdue up to 90 days; whereas impaired loans are non-performing loans subject to specific provision.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit risk (continued)

Advances to customers analysed by geographic area

2012	**Neither pass due nor impaired MOP'000**	**Past due but not impaired MOP'000**	**Impaired MOP'000**	**Specific provision MOP'000**	**General provision MOP'000**
Macau	**2,853,303**	**18,466**	**65,747**	**42,521**	**34,421**
Hong Kong	**82,659**	**-**	**-**	**-**	**969**
Others	**34,732**	**-**	**-**	**-**	**407**
	2,970,694	**18,466**	**65,747**	**42,521**	**35,797**

2011	Neither pass due nor impaired MOP'000	Past due but not impaired MOP'000	Impaired MOP'000	Specific provision MOP'000	General provision MOP'000
Macau	3,117,201	29,480	67,672	38,447	36,664
Hong Kong	119,816	902	-	-	1,377
Others	12,961	-	-	-	148
	3,249,978	30,382	67,672	38,447	38,189

Financial derivatives analysed by geographic area

	2012 MOP'000	2011 MOP'000
Macau	**1,951,976**	666,645
Hong Kong	**1,112,105**	220,479
	3,064,081	887,124

	2012 MOP'000	2011 MOP'000
Credit risk-weighted amount	**29,188**	7,549

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit risk (continued)

Advances to customers analysed by industry groups

(i) Analysis of advances to customers that were neither past due nor impaired

	2012 MOP'000	2011 MOP'000
Manufacturing	**424,342**	479,421
Construction and public works	**6,413**	-
Trade (wholesale and retail)	**464,912**	424,476
Restaurants, hotels and similar	**1,706**	-
Transport, warehouse and communications	**1,051**	1,673
Personal housing loans	**125,536**	131,605
Personal credits	**39,070**	100,727
Others	**1,907,664**	2,112,076
	2,970,694	3,249,978

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

	Past due		
2012	**Less than 1 month MOP'000**	**1-2 months MOP'000**	**Total MOP'000**
Manufacturing	**518**	**-**	**518**
Construction and public works	**-**	**-**	**-**
Trade (wholesale and retail)	**730**	**-**	**730**
Restaurants, hotels and similar	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**
Personal housing loans	**210**	**1,148**	**1,358**
Personal credits	**15,455**	**-**	**15,455**
Others	**405**	**-**	**405**
	17,318	**1,148**	**18,466**

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit risk (continued)

Advances to customers analysed by industry groups (continued)

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

2011	Past due Less than 1 month MOP'000	1-2 months MOP'000	Total MOP'000
Manufacturing	-	-	-
Construction and public works	-	-	-
Trade (wholesale and retail)	-	-	-
Restaurants, hotels and similar	-	-	-
Transport, warehouse and communications	-	-	-
Personal housing loans	1,881	-	1,881
Personal credits	15,294	-	15,294
Others	12,305	902	13,207
	29,480	902	30,382

(iii) Impaired advances to customers

	2012 **MOP'000**	2011 MOP'000
Manufacturing	**-**	481
Construction and public works	**-**	-
Trade (wholesale and retail)	**61,565**	63,180
Restaurants, hotels and similar	**-**	-
Transport, warehouse and communications	**-**	-
Personal housing loans	**-**	131
Personal credits	**-**	-
Others	**4,182**	3,880
	65,747	67,672

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit risk (continued)

Advances to customers analysed by industry groups (continued)

(iii) Impaired advances to customers (continued)

2012	**More than 6 months but not more than 1 year MOP'000**	**% of gross advances to customers**	**More than 1 year MOP'000**	**% of gross advances to customers**
Gross impaired advances	**302**	**0.01**	**65,445**	**2.14**
Specifc provision	**(302)**		**(42,219)**	
	-		**23,226**	
Impaired advances covered by collateral	**-**		**23,226**	

2011	More than 6 months but not more than 1 year MOP'000	% of gross advances to customers	More than 1 year MOP'000	% of gross advances to customers
Gross impaired advances	-	-	67,672	2.02
Speciifc provision	-		(38,447)	
	-		29,225	
Impaired advances covered by collateral	-		29,225	

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of specific provision

	As at 1 January 2012 MOP'000	**Amounts written off MOP'000**	**Net charge to income statement MOP'000**	**As at 31 December 2012 MOP'000**
Manufacturing	**481**	**(481)**	**-**	**-**
Construction and public works	**-**	**-**	**-**	**-**
Trade (wholesale and retail)	**34,086**	**(1,647)**	**5,900**	**38,339**
Restaurants, hotels and similar	**-**	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**	**-**
Personal housing loans	**-**	**-**	**-**	**-**
Personal credits	**-**	**-**	**-**	**-**
Others	**3,880**	**-**	**302**	**4,182**
	38,447	**(2,128)**	**6,202**	**42,521**

	As at 1 January 2011 MOP'000	Amounts written off MOP'000	Net charge to income statement MOP'000	As at 31 December 2011 MOP'000
Manufacturing	479	-	2	481
Construction and public works	547	-	(547)	-
Trade (wholesale and retail)	31,074	-	3,012	34,086
Restaurants, hotels and similar	-	-	-	-
Transport, warehouse and communications	-	-	-	-
Personal housing loans	-	-	-	-
Personal credits	-	-	-	-
Others	3,880	-	-	3,880
	35,980	-	2,467	38,447

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of general provision

	As at 1 January 2012 MOP'000	Net charge to income statement MOP'000	As at 31 December 2012 MOP'000
Manufacturing	**5,474**	**(496)**	**4,978**
Construction and public works	**-**	**75**	**75**
Trade (wholesale and retail)	**5,562**	**616**	**6,178**
Restaurants, hotels and similar	**-**	**20**	**20**
Transport, warehouse and communications	**19**	**(7)**	**12**
Personal housing loans	**1,524**	**(37)**	**1,487**
Personal credits	**1,323**	**(684)**	**639**
Others	**24,287**	**(1,879)**	**22,408**
	38,189	**(2,392)**	**35,797**

	As at 1 January 2011 MOP'000	Net charge to income statement MOP'000	As at 31 December 2011 MOP'000
Manufacturing	5,160	314	5,474
Construction and public works	-	-	-
Trade (wholesale and retail)	4,256	1,306	5,562
Restaurants, hotels and similar	-	-	-
Transport, warehouse and communications	17	2	19
Personal housing loans	1,454	70	1,524
Personal credits	1,375	(52)	1,323
Others	18,623	5,664	24,287
	30,885	7,304	38,189

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit 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:

2012	Repayable on demand MOP'000	Less than 1 month MOP'000	3 months or less but over 1 month MOP'000	1 year or less but over 3 months MOP'000	3 years or less but over 1 year MOP'000	After 3 years MOP'000	Total MOP'000
Assets							
- Cash and balances with banks	**124,413**	**-**	**-**	**-**	**-**	**-**	**124,413**
- AMCM monetary bills	**-**	**419,972**	**-**	**-**	**-**	**-**	**419,972**
- Loans and advances to customers	**145,995**	**671,591**	**1,277,567**	**163,614**	**203,370**	**514,452**	**2,976,589**
	270,408	**1,091,563**	**1,277,567**	**163,614**	**203,370**	**514,452**	**3,520,974**
Liabilities							
- Deposits from public sector entities	**6**	**-**	**-**	**-**	**-**	**-**	**6**
- Deposits from customers	**1,556,452**	**476,717**	**197,198**	**102,872**	**-**	**-**	**2,333,239**
- Amount due to Head Office	**1,212,989**	**-**	**-**	**-**	**-**	**-**	**1,212,989**
	2,769,447	**476,717**	**197,198**	**102,872**	**-**	**-**	**3,546,234**

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(a) Credit risk (continued)

2011	Repayable on demand MOP’000	Less than 1 month MOP’000	3 months or less but over 1 month MOP’000	1 year or less but over 3 months MOP’000	3 years or less but over 1 year MOP’000	After 3 years MOP’000	Total MOP’000
Assets							
- Cash and balances with banks	86,532	-	-	-	-	-	86,532
- AMCM monetary bills	-	399,965	-	-	-	-	399,965
- Loans and advances to customers	134,762	942,228	1,076,917	280,452	59,302	777,736	3,271,397
	221,294	1,342,193	1,076,917	280,452	59,302	777,736	3,757,894
Liabilities							
- Deposits from public sector entities	6	-	-	-	-	-	6
- Deposits from customers	1,189,932	554,079	246,156	107,624	-	-	2,097,791
- Amount due to Head Office	1,684,672	-	-	-	-	-	1,684,672
	2,874,610	554,079	246,156	107,624	-	-	3,782,469

2 Financial Risk Management (continued)

(b) Market risk

Market risk affects the economic values of financial instruments held by the Head Office including the Branch, and arises from changes in interest rate yields, foreign exchange rates, equity prices, credit spreads and changes in the correlations and volatilities of these risk factors.

The Branch manages market risk in the course its normal banking business including packaging products for clients. The Branch also manages banking book interest rate risk arising from mismatches in the interest rate profile of assets and liabilities including basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality.

The Head Office's market risk framework sets out the overall approach towards market risk management and this is supplemented with policies which articulate the standards relating to limit setting, independent valuation model validation, risk monitoring and valuation.

The Board Risk Management Committee establishes the Head Office's risk appetite for market risk. The Hong Kong Market and Liquidity Risk Committee ("MLRC"), which reports to the Hong Kong Risk Executive Committee, oversees the Head Office's market risk management infrastructure, sets market risk control limits and provides enterprise-wide oversight of all market risks and their management.

Foreign exchange risk

The principal foreign exchange risk measure of the Branch is foreign exchange net open position. The independent market risk management function of the Head Office reports to the Hong Kong Senior Risk Executive and is responsible for day-to-day foreign exchange risk monitoring and analysis.

The table below summarizes the Branch's assets and liabilities at carrying amounts, categorized by currency:

2012	**USD MOP'000**	**HKD MOP'000**	**Others MOP'000**	**Total MOP'000**
Macau Patacas equivalents				
Spot assets	**1,770,908**	**1,652,974**	**113,567**	**3,537,449**
Spot liabilities	**(1,765,336)**	**(1,628,795)**	**(114,023)**	**(3,508,154)**
Forward purchases	**209,181**	**117,912**	**103,886**	**430,979**
Forward sales	**(209,181)**	**(117,912)**	**(103,886)**	**(430,979)**
Net position	**5,572**	**24,179**	**(456)**	**29,295**

2 Financial Risk Management (continued)

Foreign exchange risk (continued)

2011	USD MOP'000	HKD MOP'000	Others MOP'000	Total MOP'000
Macau Patacas equivalents				
Spot assets	1,792,147	1,816,123	126,334	3,734,604
Spot liabilities	(1,792,226)	(1,818,967)	(126,840)	(3,738,033)
Forward purchases	8,005	13,232	5,184	26,421
Forward sales	(8,005)	(13,232)	(5,184)	(26,421)
Net position	(79)	(2,844)	(506)	(3,429)

Interest rate risk in the banking book

Major funding currencies of the Branch are USD, HKD and MOP. Interest rate risk arising from mismatches in the interest rate profile of assets and liabilities has several aspects: basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. The Market and Liquidity Risk Committee is charged with oversight of interest rate risk in the banking book. To monitor and analyse this risk, the independent market risk management function of the Head Office uses various tools, including sensitivity analysis and income scenario simulations, on a weekly and monthly basis respectively.

The Branch's interest rate risk is mainly in USD and HKD. The Branch manages and monitors the sensitivity of the net interest income ("NII") of its consolidated positions by assessing the impact of interest rate changes under simulated stress scenarios on earnings over the next 12 months. The Branch forecasts the most likely interest rate scenario for the next 12 months based on input from various business units of the Head Office and the in-house research unit. The Branch 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 sets out what would have been the profit and loss impact of stressed interest rate changes.

	2012 Change in projected net interest income MOP'000	2011 Change in projected net interest income MOP'000
Stressed scenarios		
1 % percentile interest rate change	**(6,138)**	(3,937)
99 % percentile interest rate change	**1,062**	960

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(c) 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 and key risk indicator monitoring. Risk events, including any significant incidents that may impact the Head Office'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.

(d) Liquidity risk

Funding liquidity risk (or liquidity risk) is the risk arising from an inability to meet obligations when they come due. The Branch's liquidity obligations arise from withdrawals of deposits, repayments of borrowed funds at maturity, and commitments to extend credit and support working capital needs. The Branch seeks to manage its liquidity in a manner that ensures that its liquidity obligations would continue to be honored under normal as well as adverse circumstances.

The Board Risk Management Committee of the Head Office is responsible for approving the principles and standards under the Head Office's liquidity risk management framework, as well as defining the Head Office's tolerance towards liquidity risk. The Hong Kong Risk Executive Committee, which reports to the Board Risk Management Committee and is supported by the Hong Kong Market & Liquidity Risk Committee, provides liquidity risk control across the Head Office including the Branch and its management. On a business and tactical level, the Hong Kong Asset and Liability Committee is the primary committee responsible for ensuring the enterprise-wide management of liquidity is in accordance with the liquidity risk management framework and policies.

In practice, the Branch employs a range of strategies to manage its liquidity. These include maintaining an adequate liquidity reserve, maintaining diversified sources of liquidity, and having robust internal control processes. In the event of a potential or actual crisis, the Head Office has in place a set of liquidity contingency and recovery plans to ensure that decisive actions are taken to ensure the Branch's ongoing viability.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

2 Financial Risk Management (continued)

(d) Liquidity risk (continued)

The primary measure used to manage liquidity within the tolerance defined by the Hong Kong Market & Liquidity Risk Committee for the Branch is the maturity mismatch analysis. The analysis is performed on a regular basis under normal and adverse scenarios, and assesses the adequacy of the counterbalancing capacity to fund or mitigate any cashflow shortfalls that may occur as forecasted in the cashflow movements across successive time bands. To ensure that liquidity is managed in line with the tolerance, core parameters underpinning the performance of the analysis, such as the types of scenarios and the survival period, are pre-specified for monitoring and control at the Head Office. Any occurrences of forecasted shortfalls exceeding the pre-approved tolerance would be escalated to the relevant authorities for the necessary actions.

To complement the maturity mismatch analysis in its objective to manage liquidity within the tolerance statement, liquidity risk control measures, such as liquidity-related ratios and balance sheet analysis, are measured for more granular monitoring and control over the liquidity profile of the Branch.

	2012	2011
	MOP'000	MOP'000
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held during the year	**77,908**	65,917
The arithmetic mean of the average weekly amount of cash in hand during the year	**159,320**	158,737
The arithmetic mean of the specified liquid assets at the end of each month during the year	**1,568,438**	1,120,820
	%	%
The average ratio of specified liquid asset to total basic liabilities at the end of each month during the year	**53.3**	44.6
The arithmetic mean of one-month liquidity ratio in the last week of each month during the year	**211.8**	182.2
The arithmetic mean of three-month liquidity ratio in the last week of each month during the year	**361.0**	247.3

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED FINANCIAL INFORMATION

1 Capital adequacy ratio

Head Office is required to compute its capital adequacy ratio on a combined basis that includes Head Office and the Branch. Head Office's total capital adequacy ratio was 16.7% as at 31 December 2012 (31 December 2011: 14.5%). The capital adequacy ratios as at 31 December 2012 and 2011 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.

2 Other financial information

	For the year ended 31 December 2012 HK$'M	For the year ended 31 December 2011 HK$'M
Profit before income tax	**3,694**	3,027

	As at 31 December 2012 HK$'M	As at 31 December 2011 HK$'M
Total assets	**285,332**	279,295
Total liabilities	**256,729**	253,856
Total loans and advances	**177,152**	195,919
Deposits and balances from banks	**9,356**	21,945
Deposits from customers	**214,104**	185,775
Total equity	**28,603**	25,439