DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

ANNUAL REPORT 2013

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CONTENTS

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2013

MOP

Assets	Total assets	Provision, accumulated depreciation and impairments	Net total assets
Cash	16,174,410.31		16,174,410.31
Deposits with AMCM	177,163,627.09		177,163,627.09
Interbank assets with local credit institutions	112,930,068.98		112,930,068.98
Interbank assets with credit institutions abroad	125,987,860.03		125,987,860.03
Loans and advances	3,155,952,647.22	32,124,213.08	3,123,828,434.14
Applications in local credit institutions	379,970,327.27		379,970,327.27
Equipment	1,339,034.12	855,240.43	483,793.69
Installation expenditure	3,076,239.58	2,960,520.58	115,719.00
Other fixed assets	754,222.39	737,242.12	16,980.27
Internal and adjustment accounts	554,219,931.72		554,219,931.72
Total	4,527,568,368.71	36,677,216.21	4,490,891,152.50

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2013

MOP

Liabilities	**Sub-total**	**Total**
Demand deposits and saving accounts	1,610,905,572.74	
Call deposits	84,393.08	
Time deposits	1,362,246,390.84	2,973,236,356.66
Deposits from public sector entities	2,170.00	
Interbank liabilities to local credit institutions	2,344.45	
Interbank liabilities to credit institutions abroad	759,386,003.72	
Cheques and orders payable	91,965,329.21	
Other liabilities	564,531,481.77	1,415,887,329.15
Internal and adjustment accounts	29,141,970.53	
Exposure provisions	39,575,479.04	68,717,449.57
Profit & loss for the year	33,050,017.12	33,050,017.12
Total		4,490,891,152.50

MOP

Memorandum accounts	**Total**
Bills for collection	21,686,704.52
Collaterals	11,554,242,398.91
Guarantees on account of customers	333,192,508.82
Letter of credit outstanding	302,305,836.76
Forward exchange contracts purchase	328,058,204.03
Forward exchange contracts sale	328,058,204.03
Other memorandum items	3,792,670,172.43

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 2013

Operating profit & loss

MOP

Debit	**Amount**	**Credit**	**Amount**
Costs of credit operations	10,851,624.93	Income from credit operations	73,305,703.79
Personnel costs		Income from banking services	18,122,418.71
Staff remuneration	15,006,834.15	Income from other banking services	7,725,056.85
Staff welfare	1,441,075.41	Other banking income	4,025,824.85
Other staff costs	619,365.40		
Third party supply	555,669.73		
Third party services	24,021,088.25		
Other banking costs	2,012,275.19		
Taxation	176,961.00		
Costs of non-banking operations	172,788.00		
Depreciation allowances	245,987.71		
Provision allowances	16,377,279.78		
Operating profit	31,698,054.65		
Total	103,179,004.20	Total	103,179,004.20

Profit & loss account

MOP

Debit	**Amount**	**Credit**	**Amount**
Operating loss	-	Operating profit	31,698,054.65
Loss related to previous year	-	Profit related to previous years	7,104,962.47
Profit tax provision	5,753,000.00	Provisions used up	-
Profit for the year	33,050,017.12	Loss for the year	-
Total	38,803,017.12	Total	38,803,017.12

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BUSINESS REPORT

The Branch recorded a net profit of MOP33 million in 2013, decreased by 30% as compared with last year, which was mainly resulted from the increase in total expenses by MOP8 million and loan provisions by MOP5 million. Net interest income decreased by 7% to MOP62 million; while other operating income increased by 9% to MOP30 million. Total loans and advances slightly increased by 3% to MOP3.16 billion; total customer deposits increased by 27% to MOP2.97 billion and net total assets increased by 8% to MOP4.49 billion.

DBS BANK (HONG KONG) LIMITED
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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 21 which comprise the balance sheet as at 31 December 2013, 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 judgment, 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 2013 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, 24 January 2014

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	**2013** **MOP'000**	2012 MOP'000
Interest income		**73,306**	78,207
Interest expense		**(10,852)**	(11,423)
Net interest income		**62,454**	66,784
Net fee and commission income	4	**21,505**	18,856
Other income	4	**6,527**	7,024
Total income		**90,486**	92,664
Total expenses	5	**(42,410)**	(34,938)
Profit before provisions		**48,076**	57,726
Provision for bad and doubtful debts	11	**(9,273)**	(3,810)
Profit before income tax		**38,803**	53,916
Income tax expense	6	**(5,753)**	(6,463)
Profit for the year		**33,050**	47,453

Cheng Kwong Moon
Bank Representative

Pun Kai
Bank Representative

The notes on pages 10 to 21 form part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET
AS AT 31 DECEMBER 2013

	Notes	**2013** **MOP'000**	2012 MOP'000
ASSETS			
Cash and balances with banks	7	**156,497**	124,413
Deposits with Autoridade Monetaria de Macao ("AMCM")	8	**177,164**	131,183
AMCM Monetary bills	9	**379,970**	419,972
Loans and advances to customers	10	**3,084,253**	2,976,589
Other assets	12	**544,097**	350,005
Fixed assets	13	**616**	833
		4,342,597	4,002,995
LIABILITIES			
Deposits from customers	14	**2,973,241**	2,333,245
Amount due to Head Office	15	**660,790**	1,212,989
Other liabilities	16	**669,386**	402,782
Current income tax liabilities		**6,130**	6,526
		4,309,547	3,955,542
Reserve		**33,050**	47,453
Total liabilities and reserve		**4,342,597**	4,002,995

Cheng Kwong Moon
Bank Representative

Pun Kai
Bank Representative

The notes on pages 10 to 21 form part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

STATEMENT OF CHANGES IN RESERVE
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	**2013** **MOP'000**	2012 MOP'000
Balance at 1 January		**47,453**	40,717
Profit for the year		**33,050**	47,453
Transfer to Head Office	17	**(47,453)**	(40,717)
Balance at 31 December		**33,050**	47,453

The notes on pages 10 to 21 form part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 MOP'000	2012 MOP'000
Cash flow from operating activities			
Profit before income tax		38,803	53,916
Depreciation	13	246	517
Provision for bad and doubtful debts	11	9,273	3,810
Loans and advances to customers written off	11	(15,891)	(2,128)
(Increase)/decrease in loans and advances to customers		(101,046)	293,126
Increase in other assets		(194,092)	(68,453)
Increase in deposits from customers		639,996	235,448
Increase in other liabilities		266,604	46,730
Decrease in amount due to Head Office		(552,199)	(471,683)
Cash inflow from operating activities before income tax		91,694	91,283
Macao complementary tax paid		(6,149)	(5,818)
Cash inflow from operating activities		85,545	85,465
Cash flows from investing activities			
Purchase of fixed assets	13	(29)	(519)
Cash outflow from repatriation of accumulated profits	17	(47,453)	(40,717)
Increase in cash and cash equivalents		38,063	44,229
Cash and cash equivalents at 1 January		675,568	631,339
Cash and cash equivalents at 31 December		713,631	675,568

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	**2013** **MOP'000**	2012 MOP'000
Cash and balances with banks	7	**156,497**	124,413
Deposits with AMCM	8	**177,164**	131,183
AMCM monetary bills with original maturity within one month	9	**379,970**	419,972
		713,631	675,568

The notes on pages 10 to 21 form 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 financial 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. DBS Bank Ltd. is an intermediate holding company of DBS Bank (Hong Kong) Limited. The address of the Branch's registered office is Rua Santa Clara 5-7E, Lojas C, D, Edif. Ribeiro Macao.

These financial statements were approved for issue by the Branch's management on 24 January 2014.

2 Summary of significant accounting policies

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

(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 presented in Macao Official Patacas and rounded to the nearest thousand, unless otherwise stated. They are prepared on the historical cost convention, except for derivative financial instruments which have been measured at fair value.

The preparation of financial statements in conformity with MFRS 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.

(b) Revenue recognition

(i) Interest income and interest expense

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 generally 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.

Expenses that are required, directly related and incremental to the revenue generation are offset in the net fee and commission income.

(c) Loans and 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 "Loans and 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.

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2 Summary of significant accounting policies (continued)

(f) Fixed assets

Fixed assets are stated at cost less depreciation and impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of between 3 and 8 years.

The estimated useful life and residual values of fixed assets are reviewed on each balance sheet date.

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

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

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

(g) Foreign currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions and balances

Transactions in foreign currencies are measured using exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into MOP at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising from this translation 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. Operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognized as an expense in the period the termination takes place.

(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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting estimates and assumptions

The Branch makes certain assumptions and estimates in the process of applying the Branch'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) 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

	2013 MOP'000	2012 MOP'000
Fee and commission income	**23,346**	20,517
Fee and commission expense	**(1,841)**	(1,661)
Net fee and commission income	**21,505**	18,856
Gains less losses arising from foreign exchange transactions	**2,501**	2,884
Others	**4,026**	4,140
Other income	**6,527**	7,024

5 Total expenses

	Note	**2013 MOP'000**	2012 MOP'000
Salaries and other staff costs		**16,203**	15,986
Computer charges		**10,898**	4,460
Rent and rates		**3,057**	2,856
Management service fees		**5,614**	3,529
Auditor's remuneration		**289**	277
Depreciation	13	**246**	517
Others		**6,103**	7,313
		42,410	34,938

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Income tax expense

Current tax comprises of Macao complementary tax. According to Macao Complementary tax law, Macao complementary tax 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 2012, a special tax incentive was provided to increase the tax free income threshold 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%. For 2013, the special tax incentive is provided to increase the tax free income threshold from MOP32,000 to MOP300,000 and the profit thereafter being taxed at a fixed rate of 12%. The tax on the Branch's profit before tax differs from the theoretical amount that would arise using the Macao complementary tax rate applicable to profits of the Branch and as follows:

	2013 MOP'000	2012 MOP'000
Profit before taxation	**38,803**	53,916
Tax calculated at 12%	**4,656**	6,470
Effect of progressive tax rate before 12%	**(17)**	(17)
Special complementary tax incentives	**(19)**	(10)
Expenses not deductible for taxation purposes	**1,123**	11
Under provision in prior years	**10**	9
Income tax expense	**5,753**	6,463

No deferred taxation has been provided as there were no significant timing differences at the balance sheet date (2012: Nil).

7 Cash and balances with banks

	2013 MOP'000	2012 MOP'000
Cash in hand	**16,175**	18,001
Balances with banks	**140,322**	106,412
	156,497	124,413

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Deposits with AMCM

	2013	2012
	MOP'000	MOP'000
Balance with AMCM	**177,164**	131,183

According to the statutory requirement, the Branch is required to maintain a minimum deposit balance with AMCM for liquidity purposes. The required MOP current deposit balance should not be less than 70% of the aggregate of the following amounts calculated on the average of the liabilities assessed in the preceding week:

(a) 3% of call liabilities;
(b) 2% of liabilities up to 3 months excluding call liabilities;
(c) 1% of liabilities beyond 3 months.

At 31 December 2013, the minimum deposit required were MOP58,919,000 (2012:MOP52,876,000).

9 AMCM monetary bills

	2013	2012
	MOP'000	MOP'000
Monetary bills issued by AMCM, at amortised cost	**379,970**	419,972

10 Loans and advances to customers

	2013	2012
	MOP'000	MOP'000
Loans and advances to customers	**2,469,006**	2,348,920
Trade bills	**686,947**	705,987
Less: Specific provision (note 11)	**(32,124)**	(42,521)
General provision (note 11)	**(39,576)**	(35,797)
	3,084,253	2,976,589

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Provision for bad and doubtful debts

	Specific provision MOP'000	General provision MOP'000	Total MOP'000
2013			
At 1 January 2013	**42,521**	**35,797**	**78,318**
Charge to the income statement	**5,494**	**3,779**	**9,273**
Amounts written off	**(15,891)**	**-**	**(15,891)**
At 31 December 2013 (note 10)	**32,124**	**39,576**	**71,700**
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

12 Other assets

	2013 MOP'000	2012 MOP'000
Accrued interest receivables	**3,819**	2,733
Revaluation on derivative financial instruments (note 18)	**10,284**	6,600
Acceptances	**494,620**	270,303
Other accounts	**35,374**	70,369
	544,097	350,005

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Fixed assets – Furniture, fixtures and equipment

	2013 **MOP'000**	2012 MOP'000
Cost:		
At 1 January	**5,140**	4,621
Additions	**29**	519
At 31 December	**5,169**	5,140
Accumulated depreciation:		
At 1 January	**4,307**	3,790
Charge for the year	**246**	517
At 31 December	**4,553**	4,307
Net book value:		
At 31 December	**616**	833

14 Deposits from customers

	2013 **MOP'000**	2012 MOP'000
Demand deposits and current accounts	**612,741**	404,128
Savings deposits	**998,169**	1,152,246
Time and call deposits	**1,362,331**	776,871
	2,973,241	2,333,245

15 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 and repayable on demand and bear interest rates as determined from time to time by Head Office.

16 Other liabilities

	2013	2012
	MOP'000	MOP'000
Accrued interest payable	**1,715**	814
Revaluation on derivative financial instruments (note 18)	**10,284**	6,600
Acceptances	**494,620**	270,303
Other liabilities and provisions	**162,767**	125,065
	669,386	402,782

17 Repatriation of accumulated profits to Head Office

During the year, the Branch repatriated accumulated profits of MOP47,453,000 (2012: MOP40,717,020) 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 2013			
Forwards	**328,058**	**5,592**	**5,592**
Exchange rate options	**882,053**	**4,692**	**4,692**
		10,284	**10,284**
31 December 2012			
Forwards	430,980	2,051	2,051
Exchange rate options	2,633,101	4,549	4,549
		6,600	6,600

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 12 and note 16, respectively to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	2013	2012
	MOP'000	MOP'000
Transaction-related contingencies	**319,773**	307,638
Trade-related contingencies	**315,725**	394,512
Other commitments which are unconditionally cancellable	**2,907,192**	3,019,978
	3,542,690	3,722,128

(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:

	2013	2012
	MOP'000	MOP'000
Within 1 year	**1,062**	431
After 1 year but within 5 years	**1,487**	-
	2,549	431

20 Material related party transactions

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, derivative financial instruments and contingent liabilities and commitments.

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:

	2013	2012
	MOP'000	MOP'000
Interest income	**1,475**	1,583
Interest expense	**(2,121)**	(3,253)
Net fee and commission income	**1,652**	1,277
Other income	**2,764**	2,899
Total expenses charged	**(15,996)**	(10,341)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Material related party transactions (Continued)

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

	2013	2012
	MOP'000	MOP'000
Amount due to Head Office	**660,790**	1,212,989
Other liabilities	**3,443**	2,151
	664,233	1,215,140

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

	2013	2012
	MOP'000	MOP'000
Forwards	**166,603**	217,259
Exchange rate options	**127,857**	894,846
	294,460	1,112,105

(iv) Contingent liabilities and commitments with Head Office and intermediate holding company as at 31 December

As at 31 December 2013, total contingent liabilities and commitments with Head Office and intermediate holding company amounted to MOP12,772,000 (2012: MOP12,772,000).

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" issued by AMCM.

1 Financial Risk Management

Risk governance

Under the 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. Risk appetite limits are established 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, 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 appetite and control limits for approval in line with the 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 other credit policies of DBS Bank Ltd. set forth the principles by which the Branch conducts its credit risk underwriting activities. Please refer to the Credit Risk section in Financial Statements of DBS Bank Ltd. for more details. 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 Branch measures counterparty credit exposure using the mark-to-market exposure with an appropriate add-on for future potential exposures.

1 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.

1 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. Refer to Note 19 for the contractual amounts of each significant class of contingent liabilities and commitments.

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.

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

Loans and 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.

Loans and advances to customers by credit quality

	2013	2012
	MOP'000	MOP'000
Neither past due nor impaired	**3,107,595**	2,970,694
Past due but not impaired	**6,790**	18,466
Impaired	**41,568**	65,747
	3,155,953	3,054,907

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

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by geographic area

2013	**Neither past due nor impaired MOP'000**	**Past due but not impaired MOP'000**	**Impaired MOP'000**	**Specific provision MOP'000**	**General provision MOP'000**
Macau	**2,742,944**	**6,790**	**41,568**	**32,124**	**35,003**
Hong Kong	**320,553**	**-**	**-**	**-**	**4,020**
Others	**44,098**	**-**	**-**	**-**	**553**
	3,107,595	**6,790**	**41,568**	**32,124**	**39,576**

2012	Neither past 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

Financial derivatives analysed by geographic area

	2013 MOP'000	2012 MOP'000
Macau	**915,651**	1,951,976
Hong Kong	**294,460**	1,112,105
	1,210,111	3,064,081

	2013 MOP'000	2012 MOP'000
Credit risk-weighted amount	**13,263**	29,188

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by industry groups

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

	2013 MOP'000	2012 MOP'000
Manufacturing	**324,501**	424,342
Construction and public works	**73,150**	6,413
Trade (wholesale and retail)	**955,812**	464,912
Restaurants, hotels and similar	**-**	1,706
Transport, warehouse and communications	**748**	1,051
Personal housing loans	**96,040**	125,536
Personal credits	**36,813**	39,070
Others	**1,620,531**	1,907,664
	3,107,595	2,970,694

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

	Past due		
2013	**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	**993**	**-**	**993**
Personal credits	**-**	**-**	**-**
Others	**5,797**	**-**	**5,797**
	6,790	**-**	**6,790**

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by industry groups (continued)

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

	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

(iii) Impaired loans and advances to customers

	2013 MOP'000	2012 MOP'000
Manufacturing	**-**	-
Construction and public works	**-**	-
Trade (wholesale and retail)	**20,071**	61,565
Restaurants, hotels and similar	**-**	-
Transport, warehouse and communications	**-**	-
Personal housing loans	**-**	-
Personal credits	**-**	-
Others	**21,497**	4,182
	41,568	65,747

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by industry groups (continued)

(iii) Impaired loans and advances to customers (continued)

2013	**Less than 6 months MOP'000**	**More than 6 months but not more than 1 year MOP'000**	**More than 1 year MOP'000**
Gross impaired loans and advances	**21,670**	**-**	**19,898**
Specific provision	**(12,466)**	**-**	**(19,658)**
	9,204	**-**	**240**
Impaired loans and advances covered by collateral	**9,204**	**-**	**240**
% of gross loans and advances to customers	**0.69**	**-**	**0.63**

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

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of specific provision

	As at 1 January 2013 MOP'000	**Amounts written off MOP'000**	**Net charge to income statement MOP'000**	**As at 31 December 2013 MOP'000**
Manufacturing	**-**	**-**	**-**	**-**
Construction and public works	**-**	**-**	**-**	**-**
Trade (wholesale and retail)	**38,339**	**(15,891)**	**(6,227)**	**16,221**
Restaurants, hotels and similar	**-**	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**	**-**
Personal housing loans	**-**	**-**	**-**	**-**
Personal credits	**-**	**-**	**-**	**-**
Others	**4,182**	**-**	**11,721**	**15,903**
	42,521	**(15,891)**	**5,494**	**32,124**

	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

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of general provision

	As at 1 January 2013 MOP'000	**Net charge to income statement MOP'000**	**As at 31 December 2013 MOP'000**
Manufacturing	**4,978**	**(909)**	**4,069**
Construction and public works	**75**	**842**	**917**
Trade (wholesale and retail)	**6,178**	**6,060**	**12,238**
Restaurants, hotels and similar	**20**	**(20)**	**-**
Transport, warehouse and communications	**12**	**(3)**	**9**
Personal housing loans	**1,487**	**(270)**	**1,217**
Personal credits	**639**	**(177)**	**462**
Others	**22,408**	**(1,744)**	**20,664**
	35,797	**3,779**	**39,576**

	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

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 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:

2013	**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	**156,497**	**-**	**-**	**-**	**-**	**-**	**156,497**
- AMCM monetary bills	**-**	**379,970**	**-**	**-**	**-**	**-**	**379,970**
- Loans and advances to customers	**133,757**	**751,538**	**1,006,037**	**325,172**	**205,218**	**662,531**	**3,084,253**
	290,254	**1,131,508**	**1,006,037**	**325,172**	**205,218**	**662,531**	**3,620,720**
Liabilities							
- Deposits from public sector entities	**4**	**-**	**-**	**-**	**-**	**-**	**4**
- Deposits from customers	**1,610,990**	**1,107,982**	**171,736**	**82,529**	**-**	**-**	**2,973,237**
- Amount due to Head Office	**660,790**	**-**	**-**	**-**	**-**	**-**	**660,790**
	2,271,784	**1,107,982**	**171,736**	**82,529**	**-**	**-**	**3,634,031**

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

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)

1 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 structuring and 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:

2013	USD MOP'000	HKD MOP'000	CNY MOP'000	Others MOP'000	Total MOP'000
Macau Patacas equivalents					
Spot assets	1,880,375	1,803,394	-	189,758	3,873,527
Spot liabilities	(1,876,485)	(1,781,201)	-	(192,027)	(3,849,713)
Forward purchases	137,772	25,280	142,192	22,814	328,058
Forward sales	(137,772)	(25,280)	(142,192)	(22,814)	(328,058)
Net position	3,890	22,193	-	(2,269)	23,814

1 Financial Risk Management (continued)

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

Foreign exchange risk (continued)

2012	USD MOP'000	HKD MOP'000	CNY 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	99,365	4,521	430,979
Forward sales	(209,181)	(117,912)	(99,365)	(4,521)	(430,979)
Net position	5,572	24,179	-	(456)	29,295

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 daily and quarterly 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.

	2013 Change in projected net interest income MOP'000	2012 Change in projected net interest Income MOP'000
Stressed scenarios		
1 % percentile interest rate change	**(6,653)**	(6,138)
99 % percentile interest rate change	**1,498**	1,062

1 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)

1 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 monthly 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, are measured for more granular monitoring and control over the liquidity profile of the Branch.

	2013	2012
	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	**80,773**	77,908
The arithmetic mean of the amount of cash in hand during the year	**173,796**	159,320
The arithmetic mean of the specified liquid assets at the end of each month during the year	**1,668,081**	1,568,438
	%	%
The average ratio of specified liquid asset to total basic liabilities at the end of each month during the year	**53.7**	53.3
The arithmetic mean of one-month liquidity ratio in the last week of each month during the year	**248.0**	211.8
The arithmetic mean of three-month liquidity ratio in the last week of each month during the year	**367.5**	361.0

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INFORMATION

1 Capital adequacy

The capital adequacy ratios as at 31 December 2013 and 31 December 2012 were compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority.

	As at 31 December 2013	As at 31 December 2012
Capital Adequacy Ratios		
Common Equity Tier 1	**13.9%**	NA
Tier 1	**13.9%**	14.3%
Total	**16.1%**	16.7%

2 Other financial information

	For the year ended 31 December 2013 HK$'M	For the year ended 31 December 2012 HK$'M
Profit before income tax	**4,141**	3,694

	As at 31 December 2013 HK$'M	As at 31 December 2012 HK$'M
Total assets	**308,341**	285,332
Total liabilities	**277,473**	256,729
Gross loans and advances to customers	**201,760**	177,152
Deposits and balances from banks	**4,751**	9,356
Deposits from customers	**238,391**	214,104
Total equity	**30,868**	28,603

3 Directors

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

Seah Lim Huat, Peter – Chairman
Piyush Gupta – Vice Chairman
J. E. Sebastian Paredes Muirragui – Chief Executive
Alexander Reid Hamilton
Dominic Chiu Fai Ho
Ng Chee Siong, Robert
Kwok Kwok Chuen
Yip Dicky Peter (appointed on 8 April 2013)