DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

ANNUAL REPORT 2014

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CONTENTS

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2014

MOP

Assets	Total assets	Provision, accumulated depreciation and impairments	Net total assets
Cash	9,910,023.98		9,910,023.98
Deposits with AMCM	164,998,146.55		164,998,146.55
Interbank assets with local credit institutions	118,765,706.03		118,765,706.03
Interbank assets with credit institutions abroad	270,269,095.41		270,269,095.41
Loans and advances	2,267,935,358.63	15,104,106.47	2,252,831,252.16
Applications in local credit institutions	289,990,741.97		289,990,741.97
Equipment	1,164,868.65	833,904.44	330,964.21
Installation expenditure	2,649,127.42	2,565,943.39	83,184.03
Other fixed assets	754,222.39	750,651.71	3,570.68
Internal and adjustment accounts	495,055,205.52		495,055,205.52
Total	3,621,492,496.55	19,254,606.01	3,602,237,890.54

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2014

MOP

Liabilities	**Sub-total**	**Total**
Demand deposits and saving accounts	1,250,142,978.52	
Call deposits	84,425.84	
Time deposits	954,203,640.78	2,204,431,045.14
Interbank liabilities to local credit institutions	2,044.66	
Interbank liabilities to credit institutions abroad	778,305,138.86	
Cheques and orders payable	53,595,952.64	
Other liabilities	448,122,140.87	1,280,025,277.03
Internal and adjustment accounts	26,373,373.72	
Exposure provisions	30,154,960.75	56,528,334.47
Profit & loss for the year	61,253,233.90	61,253,233.90
Total		3,602,237,890.54

MOP

Memorandum accounts	**Total**
Bills for collection	23,064,898.08
Collaterals	12,679,947,044.12
Guarantees on account of customers	338,876,941.77
Letter of credit outstanding	477,616,153.21
Forward exchange contracts purchase	483,267,554.55
Forward exchange contracts sale	483,203,420.04
Other memorandum items	4,562,237,931.14

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 2014

Operating profit & loss

MOP

Debit	Amount	Credit	Amount
Costs of credit operations	12,798,523.69	Income from credit operations	80,215,298.11
Personnel costs		Income from banking services	20,574,678.30
Staff remuneration	15,977,015.75	Income from other banking services	10,747,064.62
Staff welfare	1,223,537.00	Other banking income	3,745,118.09
Other staff costs	616,223.62		
Third party supply	555,784.78		
Third party services	27,557,397.96		
Other banking costs	1,726,609.64		
Taxation	161,170.00		
Costs of non-banking operations	172,788.48		
Depreciation allowances	205,711.25		
Provision allowances	17,083.51		
Operating profit	54,270,313.44		
Total	115,282,159.12	Total	115,282,159.12

Profit & loss account

MOP

Debit	Amount	Credit	Amount
Operating loss	-	Operating profit	54,270,313.44
Loss related to previous year	-	Profit related to previous years	14,044,920.46
Profit tax provision	7,062,000.00	Provisions used up	-
Profit for the year	61,253,233.90	Loss for the year	-
Total	68,315,233.90	Total	68,315,233.90

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BUSINESS REPORT

The Branch recorded a net profit of MOP61 million in 2014, increased significantly by 85% as compared with last year, which was mainly resulted from the write-back of MOP14 million loan provisions. Net interest income increased by 8% to MOP67 million; while other operating income increased by 17% to MOP35 million. Total loans and advances decreased by 28% to MOP2.27 billion; total customer deposits decreased by 26% to MOP2.2 billion and net total assets decreased by 20% to MOP3.6 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 2014, 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 2014 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. The accounting policies used in the presentation of the financial statements for the year ended 31 December 2014 are consistent with those in the preceding year.

Tsang Cheong Wai
Registered Auditor
PricewaterhouseCoopers
Macao, 23 January 2015

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	**2014** **MOP'000**	2013 MOP'000
Interest income		**80,215**	73,306
Interest expense		**(12,798)**	(10,852)
Net interest income		**67,417**	62,454
Net fee and commission income	4	**25,437**	21,505
Other income	4	**8,118**	6,527
Total income		**100,972**	90,486
Total expenses	5	**(46,673)**	(42,410)
Profit before provisions		**54,299**	48,076
Write back/(provision) for bad and doubtful debts	11	**14,016**	(9,273)
Profit before income tax		**68,315**	38,803
Income tax expense	6	**(7,062)**	(5,753)
Profit for the year		**61,253**	33,050

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 2014

	Notes	**2014** **MOP'000**	2013 MOP'000
ASSETS			
Cash and balances with banks	7	**206,075**	156,497
Deposits with Autoridade Monetaria de Macao ("AMCM")	8	**164,998**	177,164
AMCM Monetary bills	9	**289,991**	379,970
Loans and advances to customers	10	**2,222,676**	3,084,253
Other assets	12	**487,296**	544,097
Fixed assets	13	**418**	616
		3,371,454	4,342,597
LIABILITIES			
Deposits from customers	14	**2,204,433**	2,973,241
Amount due to Head Office	15	**585,435**	660,790
Other liabilities	16	**512,887**	669,386
Current income tax liabilities		**7,446**	6,130
		3,310,201	4,309,547
Reserve		**61,253**	33,050
Total liabilities and reserve		**3,371,454**	4,342,597

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 2014

	Notes	**2014** **MOP'000**	2013 MOP'000
Balance at 1 January		**33,050**	47,453
Profit for the year		**61,253**	33,050
Transfer to Head Office	17	**(33,050)**	(47,453)
Balance at 31 December		**61,253**	33,050

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 2014

	Notes	**2014 MOP'000**	2013 MOP'000
Cash flow from operating activities			
Profit before income tax		**68,315**	38,803
Loss on disposal of fixed assets		**10**	-
Depreciation	13	**206**	246
(Write back)/ provision for bad and doubtful debts	11	**(14,016)**	9,273
Loans and advances to customers written off	11	**(12,425)**	(15,891)
Decrease/(increase) in loans and advances to customers		**888,018**	(101,046)
Decrease/(increase) in other assets		**56,801**	(194,092)
(Decrease)/increase in deposits from customers		**(768,808)**	639,996
(Decrease)/increase in other liabilities		**(156,499)**	266,604
Decrease in amount due to Head Office		**(75,355)**	(552,199)
Cash (outflow)/inflow from operating activities before income tax		**(13,753)**	91,694
Macao complementary tax paid		**(5,746)**	(6,149)
Cash (outflow)/inflow from operating activities		**(19,499)**	85,545
Cash flows from investing activities			
Purchase of fixed assets	13	**(18)**	(29)
Cash outflow from repatriation of accumulated profits	17	**(33,050)**	(47,453)
(Decrease)/increase in cash and cash equivalents		**(52,567)**	38,063
Cash and cash equivalents at 1 January		**713,631**	675,568
Cash and cash equivalents at 31 December		**661,064**	713,631

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	**2014 MOP'000**	2013 MOP'000
Cash and balances with banks	7	**206,075**	156,497
Deposits with AMCM	8	**164,998**	177,164
AMCM monetary bills with original maturity within one month	9	**289,991**	379,970
		661,064	713,631

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

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

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 banking and related financial services.

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 ultimate holding company is DBS Group Holdings Ltd ("DBSH") which is listed, incorporated and domiciled in the Republic of Singapore. The address of the Branch's registered office is Rua Santa Clara 5-7E, Lojas C, D, Edif. Ribeiro Macao.

The financial statements were approved for issue by the Branch's management on 23 January 2015.

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.

The preparation of financial statements 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 during which the related service is provided or credit risk is undertaken.

Fee and commission income is recorded net of expenses that are directly related to and incremental to generating it.

(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.

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.

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 in the financial statements 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 functional currency of the Branch.

(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 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.

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

(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.

3 Critical accounting estimates and assumptions

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

(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

	2014	2013
	MOP'000	MOP'000
Fee and commission income	**26,951**	23,346
Less: Fee and commission expense	**(1,514)**	(1,841)
Net fee and commission income	**25,437**	21,505
Net trading income from foreign exchange	**4,371**	2,501
Others	**3,747**	4,026
Other income	**8,118**	6,527

5 Total expenses

	Note	**2014**	2013
		MOP'000	MOP'000
Employee benefits		**17,462**	16,203
Computerisation expenses		**14,918**	10,898
Rental of premises		**2,981**	3,057
Management service fees		**4,328**	5,614
Auditor's remuneration		**263**	289
Depreciation	13	**206**	246
Other operating expenses		**6,515**	6,103
		46,673	42,410

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 2014 and 2013, the special tax incentive is provided to effect that the tax free income threshold is increased 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:

	2014 **MOP'000**	2013 MOP'000
Profit before taxation	**68,315**	38,803
Tax calculated at 12%	**8,198**	4,656
Effect of progressive tax rate before 12%	**(17)**	(17)
Special complementary tax incentives	**(19)**	(19)
Expenses (deductible)/not deductible for taxation purposes	**(1,100)**	1,123
Under provision in prior years	**-**	10
Income tax expense	**7,062**	5,753

No deferred taxation has been provided as there were no significant timing differences at the balance sheet date (2013: Nil).

7 Cash and balances with banks

	2014 **MOP'000**	2013 MOP'000
Cash in hand	**9,910**	16,175
Balances with banks	**196,165**	140,322
	206,075	156,497

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Deposits with AMCM

	2014	2013
	MOP'000	MOP'000
Balance with AMCM	**164,998**	177,164

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 amount:

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

At 31 December 2014, the minimum deposit required were MOP51,130,000 (2013:MOP58,919,000).

9 AMCM monetary bills

	2014	2013
	MOP'000	MOP'000
Monetary bills issued by AMCM, at amortised cost	**289,991**	379,970

10 Loans and advances to customers

	2014	2013
	MOP'000	MOP'000
Loans and advances to customers	**2,267,935**	2,469,006
Trade bills	**-**	686,947
Less: Specific provision (note 11)	**(15,104)**	(32,124)
General provision (note 11)	**(30,155)**	(39,576)
	2,222,676	3,084,253

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Provision for bad and doubtful debts

	Specific provision MOP'000	General provision MOP'000	Total MOP'000
2014			
At 1 January 2014	**32,124**	**39,576**	**71,700**
Write back from income statement	**(4,595)**	**(9,421)**	**(14,016)**
Amounts written off	**(12,425)**	**-**	**(12,425)**
At 31 December 2014 (note 10)	**15,104**	**30,155**	**45,259**
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

12 Other assets

	2014 MOP'000	2013 MOP'000
Accrued interest receivables	**4,201**	3,819
Revaluation on derivative financial instruments (note 18)	**8,011**	10,284
Acceptances	**430,199**	494,620
Other accounts	**44,885**	35,374
	487,296	544,097

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Fixed assets – Furniture, fixtures and equipment

	2014 MOP'000	2013 MOP'000
Cost:		
At 1 January	**5,169**	5,140
Additions	**18**	29
Disposals	**(619)**	-
At 31 December	**4,568**	5,169
Accumulated depreciation:		
At 1 January	**4,553**	4,307
Charge for the year	**206**	246
Disposals	**(609)**	-
At 31 December	**4,150**	4,553
Net book value:		
At 31 December	**418**	616

14 Deposits from customers

	2014 MOP'000	2013 MOP'000
Demand deposits and current accounts	**390,036**	612,741
Savings deposits	**860,109**	998,169
Time and call deposits	**954,288**	1,362,331
	2,204,433	2,973,241

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

	2014 **MOP'000**	2013 MOP'000
Accrued interest payable	**1,038**	1,715
Revaluation on derivative financial instruments (note 18)	**7,947**	10,284
Acceptances	**430,199**	494,620
Other liabilities and provisions	**73,703**	162,767
	512,887	669,386

17 Repatriation of accumulated profits to Head Office

During the year, the Branch repatriated accumulated profits of MOP33,050,000 (2013: MOP47,453,000) 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 2014			
Foreign exchange derivatives			
- Forwards	**478,587**	**2,496**	**2,432**
- Options	**867,703**	**5,515**	**5,515**
		8,011	**7,947**
31 December 2013			
Foreign exchange derivatives			
- Forwards	322,910	5,592	5,592
- Options	870,858	4,692	4,692
		10,284	10,284

The Branch enters into foreign exchange forwards and options to meet customer demands and enters into offsetting derivatives with Head Office and fellow subsidiary. 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:

	2014 **MOP'000**	2013 MOP'000
Transaction-related contingencies	**324,905**	319,773
Trade-related contingencies	**491,589**	315,725
Other commitments which are unconditionally cancellable	**3,635,606**	2,907,192
	4,452,100	3,542,690

(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:

	2014 **MOP'000**	2013 MOP'000
Not later than one year	**1,064**	1,062
Later than one year and not later than five years	**437**	1,487
	1,501	2,549

20 Material related party transactions

The Branch's immediate holding company is DBS Bank (Hong Kong) Limited and DBS 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 holding companies and fellow subsidiary 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Material related party transactions (Continued)

(i) Income and expenses with holding companies and fellow subsidiary:

	2014	2013
	MOP'000	MOP'000
Interest income	**1,473**	1,475
Interest expense	**(2,408)**	(2,121)
Net fee and commission income	**2,270**	1,652
Other income	**2,425**	2,764
Total expenses charged	**(18,858)**	(15,996)

(ii) Balances with holding company as at 31 December:

	2014	2013
	MOP'000	MOP'000
Amount due to Head Office	**585,435**	660,790
Other liabilities	**2,002**	3,443
	587,437	664,233

(iii) Contract/notional amounts of financial derivatives with holding company and fellow subsidiary as at 31 December:

	2014	2013
	MOP'000	MOP'000
Foreign exchange derivatives		
- Forwards	**239,261**	166,603
- Options	**433,852**	127,857
	673,113	294,460

(iv) Contingent liabilities and commitments with holding companies as at 31 December:

As at 31 December 2014, total contingent liabilities and commitments with holding companies amounted to MOP18,049,000 (2013: 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, sets risk appetite, oversees the establishment of robust enterprise-wide risk management policies and processes and set risk limits to guide risk-taking of the Head Office.

(a) Credit risk

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

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 Branch will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are contingent in nature. Pre-settlement Credit Exposures for trading and securities transactions is measured taking into account collateral and netting arrangements. Settlement risk is the risk of loss due to the counterparty's failure to perform its obligation after the Branch has performed its obligation under an exchange of cash or securities.

Credit Risk Management

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

- **Framework**

The Credit Risk Management Framework, approved by DBSH, defines credit risk and the scope of its application; establishes the dimensions of credit risk; and provides a consistent groupwide framework for managing credit risk across the DBSH group.

- **Policies**

Senior management sets the overall direction and policy for managing credit risk. DBSH's Core Credit Risk Policy sets forth the principles by which the Head Office conducts its credit risk management activities.

The business-specific and/or location-specific credit policies are established to provide greater details on the implementation of the credit principles within the Core Credit Risk Policy and are adapted to reflect different credit environments and portfolio risk profiles.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Collateral

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

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

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

Helping our customers to restructure repayment liabilities, in times of difficulty, is the Branch's preferred approach. However, should the need arise, expeditious disposal and recovery processes are in place for disposal of collaterals held by the Branch.

Other Risk Mitigants

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

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

- **Risk Methodologies**

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

Retail exposures are typically managed on a portfolio basis and assessed based on credit scoring models, credit bureau record, internal and available external customers' behavior records and supplemented by risk acceptance criteria.

Wholesale exposures are assessed using approved credit models, reviewed and analysed by experienced credit risk managers taking into consideration the relevant credit risk factors. Credit extensions are proposed by the business unit and are approved by the credit risk function based on independent credit assessment, while also taking into account the business strategies determined by senior management.

The Head Office actively monitors and manages its exposure to counterparties in over-the-counter derivative trades to protect its balance sheet in the event of a counterparty default. DBSH has established methodology on wrong-way risk.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) *Credit risk (continued)*

Concentration Risk Management

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

Country Risk

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

Stress Testing

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

- **Processes, Systems and Reports**

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

Non-performing assets

The Branch classifies its credit facilities as 'Performing Assets' or 'Non-performing assets'.

In general, provision is made when there is objective evidence of impairment as a result of the occurrence of loss events that will have an impact on the estimated future cash flows.

When required, the Branch will take possession of collateral it holds as securities and will dispose of them as soon as practicable, with the outstanding indebtedness.

Maximum exposure to credit risk

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 Branch 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.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) *Credit risk (continued)*

Analysis of Collateral

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

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

Derivative financial instruments
The Head Office maintains collateral agreements and enters into master netting agreements with counterparties for derivative transactions where it is appropriate and feasible.

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

Loans and advances to customers by credit quality

	2014 **MOP'000**	2013 MOP'000
Neither past due nor impaired	**2,243,878**	3,107,595
Past due but not impaired	**2,541**	6,790
Impaired	**21,516**	41,568
	2,267,935	3,155,953

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)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by geographic area

2014	**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	**2,108,975**	**2,541**	**21,516**	**15,104**	**28,361**
Hong Kong	**82,158**	**-**	**-**	**-**	**1,092**
Others	**52,745**	**-**	**-**	**-**	**702**
	2,243,878	**2,541**	**21,516**	**15,104**	**30,155**

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

Financial derivatives analysed by geographic area

	2014 MOP'000	2013 MOP'000
Macau	**673,177**	915,651
Hong Kong	**673,113**	294,460
	1,346,290	1,210,111

	2014 MOP'000	2013 MOP'000
Credit risk-weighted amount	**18,017**	13,263

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

	2014 MOP'000	2013 MOP'000
Manufacturing	**635,350**	324,501
Construction and public works	**103,145**	73,150
Trade (wholesale and retail)	**912,831**	955,812
Restaurants, hotels and similar	**-**	-
Transport, warehouse and communications	**6,695**	748
Personal housing loans	**46,687**	96,040
Personal credits	**16,200**	36,813
Others	**522,970**	1,620,531
	2,243,878	3,107,595

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

	Past due		
2014	**Less than 1 month MOP'000**	**1-2 months MOP'000**	**Total MOP'000**
Manufacturing	**527**	**-**	**527**
Construction and public works	**-**	**-**	**-**
Trade (wholesale and retail)	**-**	**-**	**-**
Restaurants, hotels and similar	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**
Personal housing loans	**1,155**	**859**	**2,014**
Personal credits	**-**	**-**	**-**
Others	**-**	**-**	**-**
	1,682	**859**	**2,541**

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		
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

(iii) Impaired loans and advances to customers

	2014 MOP'000	2013 MOP'000
Manufacturing	**-**	-
Construction and public works	**-**	-
Trade (wholesale and retail)	**7,701**	20,071
Restaurants, hotels and similar	**-**	-
Transport, warehouse and communications	**-**	-
Personal housing loans	**-**	-
Personal credits	**-**	-
Others	**13,815**	21,497
	21,516	41,568

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)

2014	**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	**-**	**-**	**21,516**
Specific provision	**-**	**-**	**(15,104)**
	-	**-**	**6,412**
Impaired loans and advances covered by collateral	**-**	**-**	**6,412**
% of gross loans and advances to customers	**-**	**-**	**0.95**

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

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of specific provision

	As at 1 January 2014 MOP'000	**Amounts written off MOP'000**	**Write back from income statement MOP'000**	**As at 31 December 2014 MOP'000**
Manufacturing	**-**	**-**	**-**	**-**
Construction and public works	**-**	**-**	**-**	**-**
Trade (wholesale and retail)	**16,221**	**(12,124)**	**74**	**4,171**
Restaurants, hotels and similar	**-**	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**	**-**
Personal housing loans	**-**	**-**	**-**	**-**
Personal credits	**-**	**-**	**-**	**-**
Others	**15,903**	**(301)**	**(4,669)**	**10,933**
	32,124	**(12,425)**	**(4,595)**	**15,104**

	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

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of general provision

	As at 1 January 2014 MOP'000	Write back from income statement MOP'000	As at 31 December 2014 MOP'000
Manufacturing	**4,069**	**4,386**	**8,455**
Construction and public works	**917**	**454**	**1,371**
Trade (wholesale and retail)	**12,238**	**2**	**12,240**
Restaurants, hotels and similar	**-**	**-**	**-**
Transport, warehouse and communications	**9**	**80**	**89**
Personal housing loans	**1,217**	**(569)**	**648**
Personal credits	**462**	**(247)**	**215**
Others	**20,664**	**(13,527)**	**7,137**
	39,576	**(9,421)**	**30,155**

	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

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

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:

2014	**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	**206,075**	**-**	**-**	**-**	**-**	**-**	**206,075**
- AMCM monetary bills	**-**	**289,991**	**-**	**-**	**-**	**-**	**289,991**
- Loans and advances to customers	**164,146**	**708,829**	**534,410**	**177,774**	**176,091**	**461,426**	**2,222,676**
	370,221	**998,820**	**534,410**	**177,774**	**176,091**	**461,426**	**2,718,742**
Liabilities							
- Deposits from public sector entities	**2**	**-**	**-**	**-**	**-**	**-**	**2**
- Deposits from customers	**1,250,228**	**611,802**	**264,241**	**78,160**	**-**	**-**	**2,204,431**
- Amount due to Head Office	**585,435**	**-**	**-**	**-**	**-**	**-**	**585,435**
	1,835,665	**611,802**	**264,241**	**78,160**	**-**	**-**	**2,789,868**

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

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

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:

2014	**USD MOP'000**	**HKD MOP'000**	**CNY MOP'000**	**Others MOP'000**	**Total MOP'000**
Macau Patacas equivalents					
Spot assets	**1,093,426**	**1,812,910**	**-**	**181,831**	**3,088,167**
Spot liabilities	**(1,089,456)**	**(1,789,819)**	**-**	**(181,334)**	**(3,060,609)**
Forward purchases	**216,926**	**22,400**	**221,851**	**22,092**	**483,269**
Forward sales	**(216,926)**	**(22,336)**	**(221,851)**	**(22,092)**	**(483,205)**
Net position	**3,970**	**23,155**	**-**	**497**	**27,622**

1 Financial Risk Management (continued)

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

Foreign exchange risk (continued)

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

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 MLRC 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 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.

	2014 Change in projected net interest income MOP'000	2013 Change in projected net interest income MOP'000
Stressed scenarios		
1 % percentile interest rate change	**(4,965)**	(6,653)
99 % percentile interest rate change	**1,573**	1,498

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. Operational risk is inherent in most of the Branch's businesses and activities.

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

Operational Risk Management

The Head Office's framework for operational risk management comprises the following building blocks:

- **Policies**

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

- **Risk Methodologies**

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

- **Processes, systems and reports**

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

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

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(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.

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.

	2014 MOP'000	2013 MOP'000
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held during the year	**73,671**	80,773
The arithmetic mean of the amount of cash in hand during the year	**166,571**	173,796
The arithmetic mean of the specified liquid assets at the end of each month during the year	**1,432,097**	1,668,081
	%	%
The average ratio of specified liquid asset to total basic liabilities at the end of each month during the year	**51.2**	53.7
The arithmetic mean of one-month liquidity ratio in the last week of each month during the year	**205.9**	248.0
The arithmetic mean of three-month liquidity ratio in the last week of each month during the year	**451.2**	367.5

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INFORMATION

1 Capital adequacy

The capital adequacy ratios as at 31 December 2014 and 31 December 2013 were compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority.

	As at 31 December 2014	As at 31 December 2013
Capital Adequacy Ratios		
Common Equity Tier 1	**14.6%**	13.9%
Tier 1	**14.6%**	13.9%
Total	**16.7%**	16.1%

2 Other financial information

	For the year ended 31 December 2014	For the year ended 31 December 2013
	HK$'M	HK$'M
Profit before income tax	**3,587**	4,141

	As at 31 December 2014	As at 31 December 2013
	HK$'M	HK$'M
Total assets	**313,854**	308,341
Total liabilities	**281,480**	277,473
Gross loans and advances to customers	**185,968**	201,760
Due to banks	**4,277**	4,751
Deposits from customers	**252,259**	238,391
Total equity	**32,374**	30,868

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INFORMATION (CONTINUED)

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