DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

ANNUAL REPORT 2016

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CONTENTS

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2016

MOP

Assets	Total assets	Provision, accumulated depreciation and impairments	Net total assets
Cash	29,897,395.71		29,897,395.71
Deposits with AMCM	160,846,626.92		160,846,626.92
Interbank assets with local credit institutions	87,337,833.73		87,337,833.73
Interbank assets with credit institutions abroad	201,240,435.31		201,240,435.31
Loans and advances	3,316,473,520.24	-	3,316,473,520.24
Applications in local credit institutions	199,977,225.55		199,977,225.55
Equipment	1,256,171.21	1,020,882.21	235,289.00
Installation expenditure	2,662,341.33	2,445,864.16	216,477.17
Other fixed assets	580,165.97	580,165.97	-
Internal and adjustment accounts	584,575,843.58		584,575,843.58
Total	4,584,847,559.55	4,046,912.34	4,580,800,647.21

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2016

MOP

Liabilities	**Sub-total**	**Total**
Demand deposits and saving accounts	1,653,060,781.79	
Call deposits	84,402.59	
Time deposits	660,147,000.58	2,313,292,184.96
Interbank liabilities to local credit institutions	-	
Interbank liabilities to credit institutions abroad	1,574,527,714.64	
Cheques and orders payable	40,281,710.39	
Other liabilities	556,313,647.43	2,171,123,072.46
Internal and adjustment accounts	25,596,354.21	
Exposure provisions	41,834,617.76	67,430,971.97
Profit & loss for the year	28,954,417.82	28,954,417.82
Total		4,580,800,647.21

MOP

Memorandum accounts	**Total**
Bills for collection	143,780,369.03
Collaterals	14,985,041,011.78
Guarantees on account of customers	366,319,227.24
Letter of credit outstanding	544,326,800.46
Forward exchange contracts purchase	127,290,095.85
Forward exchange contracts sale	127,247,768.93
Other memorandum items	4,195,780,388.57

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 2016

Operating profit & loss

MOP

Debit	**Amount**	**Credit**	**Amount**
Costs of credit operations	8,276,969.17	Income from credit operations	73,408,570.29
Personnel costs		Income from banking services	15,002,055.69
Staff remuneration	16,726,723.97	Income from other banking services	6,480,858.99
Staff welfare	1,470,788.53	Other banking income	2,890,408.58
Other staff costs	380,646.65		
Third party supply	505,548.78		
Third party services	25,751,944.68		
Other banking costs	706,771.36		
Taxation	182,692.00		
Costs of non-banking operations	172,787.45		
Depreciation allowances	227,371.50		
Provision allowances	10,989,431.64		
Operating profit	32,390,217.82		
Total	97,781,893.55	Total	97,781,893.55

Profit & loss account

MOP

Debit	**Amount**	**Credit**	**Amount**
Operating loss		Operating profit	32,390,217.82
Loss related to previous year		Profit related to previous years	150.00
Profit tax provision	3,435,950.00	Provisions used up	
Profit for the year	28,954,417.82	Loss for the year	
Total	32,390,367.82	Total	32,390,367.82

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BUSINESS REPORT

The Branch recorded a net profit of MOP29 million in 2016, a slight decrease by 6% as compared with last year, which was mainly resulted from the increase in loan provision made in 2016. Net interest income increased by 11% to MOP65 million; while other operating income decreased by 12% to MOP24 million. Total expenses decreased by 9% to MOP46 million. Total loans and advances increased significantly by 44% to MOP3.32 billion; total customer deposits slightly increased by 3% to MOP2.31 billion, and net total assets increased by 28% to MOP4.58 billion.

DBS BANK (HONG KONG) LIMITED
MACAU BRANCH

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

INDEPENDENT AUDITOR'S REPORT
TO THE MANAGEMENT OF DBS BANK (HONG KONG) LIMITED
- MACAU BRANCH

We have audited the financial statements of DBS Bank (Hong Kong) Limited - Macau Branch (the "Branch") set out on pages 6 to 21 which comprise the balance sheet as at 31 December 2016, 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 2016 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 2016 are consistent with those used in the preceding year.

Cheung Pui Peng Grace
Registered Auditor
PricewaterhouseCoopers

Macao, 9 February 2017

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** **MOP'000**	2015 MOP'000
Interest income		**73,409**	67,142
Interest expense		**(8,277)**	(8,343)
Net interest income		**65,132**	58,799
Net fee and commission income	4	**16,857**	18,592
Other income	4	**6,882**	7,554
Total income		**88,871**	84,945
Total expenses	5	**(45,492)**	(49,369)
Profit before provisions		**43,379**	35,576
Provision charge for bad and doubtful debts	11	**(10,989)**	(685)
Profit before income tax		**32,390**	34,891
Income tax expense	6	**(3,436)**	(4,120)
Profit for the year		**28,954**	30,771

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 2016

	Notes	**2016** **MOP'000**	2015 MOP'000
ASSETS			
Cash and balances with banks	7	**173,228**	281,583
Deposits with Autoridade Monetaria de Macao ("AMCM")	8	**160,847**	166,521
AMCM monetary bills	9	**199,977**	219,985
Loans and advances to customers	10	**3,274,639**	2,266,510
Other assets	12	**578,850**	511,032
Fixed assets	13	**452**	436
		4,387,993	3,446,067
LIABILITIES			
Deposits from customers	14	**2,313,292**	2,238,831
Amount due to Head Office	15	**1,429,280**	628,566
Other liabilities	16	**612,599**	543,355
Current income tax liabilities		**3,868**	4,544
		4,359,039	3,415,296
NET ASSETS		**28,954**	30,771
REPRESENTED BY			
Reserve		**28,954**	30,771

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 2016

Retained earnings	Notes	**2016 MOP'000**	2015 MOP'000
Balance at 1 January		**30,771**	61,253
Profit for the year		**28,954**	30,771
Transfer to Head Office	17	**(30,771)**	(61,253)
Balance at 31 December		**28,954**	30,771

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 2016

	Notes	**2016 MOP'000**	2015 MOP'000
Cash flow from operating activities			
Profit before income tax		**32,390**	34,891
Depreciation	13	**227**	187
Provision charge for bad and doubtful debts	11	**10,989**	685
Loans and advances to customers written off	11	**(11,850)**	(3,249)
Increase in loans and advances to customers		**(1,007,268)**	(41,270)
Increase in other assets		**(67,818)**	(23,736)
Increase in deposits from customers		**74,461**	34,398
Increase in other liabilities		**69,244**	30,468
Increase in amount due to Head Office		**800,714**	43,131
Cash (outflow)/inflow from operating activities before income tax		**(98,911)**	75,505
Macao complementary tax paid		**(4,112)**	(7,022)
Cash (outflow)/inflow from operating activities		**(103,023)**	68,483
Cash flows from investing activities			
Purchase of fixed assets	13	**(243)**	(205)
Cash outflow from transfer to Head Office	17	**(30,771)**	(61,253)
(Decrease)/increase in cash and cash equivalents		**(134,037)**	7,025
Cash and cash equivalents at 1 January		**668,089**	661,064
Cash and cash equivalents at 31 December		**534,052**	668,089

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	**2016 MOP'000**	2015 MOP'000
Cash and balances with banks	7	**173,228**	281,583
Deposits with AMCM	8	**160,847**	166,521
AMCM monetary bills with original maturity within three months	9	**199,977**	219,985
		534,052	668,089

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 banking and related financial services. The address of the Branch's registered office is Rua Santa Clara 5-7E, Lojas C, D, Edif. Ribeiro Macao.

The Branch's head office is DBS Bank (Hong Kong) Limited ("Head Office") and is a bank incorporated and domiciled in Hong Kong. DBS Bank Ltd is an intermediate holding company ("Intermediate Holding Company") of DBS Bank (Hong Kong) Limited. The ultimate holding company is DBS Group Holdings Ltd ("DBSH") which is listed, incorporated and domiciled in the Republic of Singapore.

The financial statements were approved for issue by the Branch's management on 9 February 2017.

2 Summary of significant accounting policies

The following is a summary of the principal accounting policies applied by the Branch and 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 in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity, are disclosed in note 3.

(b) 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 recognised over the period during which the related service is provided or credit risk is undertaken.

Fee and commission income is recorded net of expenses directly related to it.

(c) Loans and advances to customers and other assets

Loans and 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.

Letters of credit are recorded off-balance sheet as contingent liabilities upon issuance, and the corresponding payables to the beneficiaries and receivables from the applicants are recognised on-balance sheet upon acceptance of the underlying documents.

(d) Provision for bad and doubtful debts

The Branch internally classifies loans and 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 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 accumulated 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 currency treatment

(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 end of the reporting period. 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.

(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.

2 Summary of significant accounting policies (continued)

(j) Current and deferred taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Tax assets and liabilities of the same type (current or deferred) are offset when a legal right of offset exists and settlement in this manner is intended.

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

The amount of deferred tax assets recognised takes into account the likelihood the amount 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 loans and advances to customers should be recorded, the Branch makes reference to the requirements of AMCM and the classification of loans and 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

	2016 **MOP'000**	2015 MOP'000
Fee and commission income	**17,491**	20,134
Less: Fee and commission expense	**(634)**	(1,542)
Net fee and commission income	**16,857**	18,592
Net trading income from foreign exchange	**3,992**	4,690
Others	**2,890**	2,864
Other income	**6,882**	7,554

5 Total expenses

	Note	**2016** **MOP'000**	2015 MOP'000
Employee benefits		**18,484**	18,225
Computerisation expenses		**13,007**	15,939
Rental of premises		**3,085**	2,901
Management service fees		**3,833**	5,152
Auditor's remuneration		**270**	256
Depreciation	13	**227**	187
Other operating expenses		**6,586**	6,709
		45,492	49,369

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 the year 2016 and year 2015, the special tax incentive is provided to effect that the tax free income threshold is increased from MOP32,000 to MOP600,000 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:

	2016 **MOP'000**	2015 MOP'000
Profit before income tax	**32,390**	34,891
Tax calculated at 12%	**3,887**	4,187
Effect of progressive tax rate before 12%	**(17)**	(17)
Special complementary tax incentives	**(55)**	(55)
Expenses not deductible for tax purposes	**-**	5
Overprovision in prior years written back	**(379)**	-
Income tax expense	**3,436**	4,120

No deferred taxation has been provided as there were no significant temporary differences at the balance sheet date (2015: Nil).

7 Cash and balances with banks

	2016 **MOP'000**	2015 MOP'000
Cash in hand	**29,897**	27,220
Balances with banks	**143,331**	254,363
	173,228	281,583

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Deposits with AMCM

	2016 **MOP'000**	2015 MOP'000
Balance with AMCM	**160,847**	166,521

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 2016, the minimum deposit required were MOP51,503,000 (2015: MOP51,394,000).

9 AMCM monetary bills

	2016 **MOP'000**	2015 MOP'000
Monetary bills issued by AMCM, at amortised cost	**199,977**	219,985

10 Loans and advances to customers

	2016 **MOP'000**	2015 MOP'000
Gross loans and advances to customers	**2,996,912**	2,121,324
Trade bills	**319,561**	187,881
Less: Specific provision (note 11)	**-**	(11,844)
General provision (note 11)	**(41,834)**	(30,851)
	3,274,639	2,266,510

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Provision for bad and doubtful debts

	Specific provision MOP'000	General provision MOP'000	Total MOP'000
2016			
At 1 January 2016	**11,844**	**30,851**	**45,695**
Charge to income statement	**6**	**10,983**	**10,989**
Amounts written off	**(11,850)**	**-**	**(11,850)**
At 31 December 2016 (note 10)	**-**	**41,834**	**41,834**
2015			
At 1 January 2015	15,104	30,155	45,259
Charge to/(write back) from income statement	(11)	696	685
Amounts written off	(3,249)	-	(3,249)
At 31 December 2015 (note 10)	11,844	30,851	42,695

12 Other assets

	2016 MOP'000	2015 MOP'000
Accrued interest receivables	**5,391**	4,963
Derivative financial instruments (note 18)	**3,028**	10,845
Acceptances	**525,900**	481,746
Others	**44,531**	13,478
	578,850	511,032

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Fixed assets – Furniture, fixtures and equipment

	2016	2015
	MOP'000	MOP'000
Cost:		
At 1 January	**4,773**	4,568
Additions	**243**	205
Disposals	**(517)**	-
At 31 December	**4,499**	4,773
Accumulated depreciation:		
At 1 January	**4,337**	4,150
Charge for the year	**227**	187
Disposals	**(517)**	-
At 31 December	**4,047**	4,337
Net book value:		
At 31 December	**452**	436

14 Deposits from customers

	2016	2015
	MOP'000	MOP'000
Demand deposits and current accounts	**506,550**	371,468
Savings deposits	**1,146,511**	999,575
Time and call deposits	**660,231**	867,788
	2,313,292	2,238,831

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

	2016 **MOP'000**	2015 MOP'000
Accrued interest payable	**1,217**	747
Derivative financial instruments (note 18)	**2,986**	10,831
Acceptance	**525,900**	481,746
Other liabilities and provisions	**82,496**	50,031
	612,599	543,355

17 Transfer to Head Office

During the year, the Branch transferred an amount of MOP30,771,000 from its retained earnings (2015: MOP61,253,000) to Head Office.

18 Derivative financial instruments

The following is a summary of each significant type of derivative transactions:

	Contract/ Notional amount MOP'000	**Positive fair values MOP'000**	**Negative fair values MOP'000**
31 December 2016			
Foreign exchange derivatives			
- Forwards	**127,290**	**1,553**	**1,511**
- Options	**53,436**	**1,475**	**1,475**
		3,028	**2,986**
31 December 2015			
Foreign exchange derivatives			
- Forwards	380,388	5,247	5,233
- Options	469,397	5,598	5,598
		10,845	10,831

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

	2016	2015
	MOP'000	MOP'000
Transaction-related contingencies	**354,057**	322,165
Trade-related contingencies	**556,589**	154,852
Other commitments which are unconditionally cancellable	**4,119,818**	4,472,550
	5,030,464	4,949,567

(b) Lease commitments

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

	2016	2015
	MOP'000	MOP'000
Not later than one year	**1,343**	437
Later than one year and not later than five years	**2,154**	-
	3,497	437

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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Material related party transactions (Continued)

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 Company:

	2016	2015
	MOP'000	MOP'000
Interest income	**1,149**	1,052
Interest expense	**(3,197)**	(1,414)
Net fee and commission income	**-**	628
Other income	**1,400**	1,454
Total expenses charged	**(17,831)**	(20,105)

(ii) Balances with Head Office as at 31 December:

	2016	2015
	MOP'000	MOP'000
Amount due to Head Office	**1,429,280**	628,566
Other liabilities	**2,035**	2,239
	1,431,315	630,805

(iii) Contract/notional amounts of financial derivatives with Head Office and Intermediate Holding Company as at 31 December:

	2016	2015
	MOP'000	MOP'000
Foreign exchange derivatives		
- Forwards	**62,986**	188,307
- Options	**25,479**	230,693
	88,465	419,000

(iv) Contingent liabilities and commitments with Head Office and Intermediate Holding Company:

As at 31 December 2016, total contingent liabilities and commitments with Head Office and Intermediate Holding Company amounted to MOP47,307,000 (2015: MOP13,966,000).

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 (BRMC), 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, corporate and institutional 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 (PCE) for trading and securities transactions is measured taking into account collateral and netting arrangements. Settlement risk is the risk of loss due to the counterparty's failure to perform its obligation after the Branch has performed its obligation under a contract or agreement (through either an advance of funds or securities) at the settlement date.

Credit Risk Management

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

- **Policies**

As established in the DBSH's Credit Risk Management Framework, the dimensions of credit risk and the scope of its application are defined. Senior management sets the overall direction and policy for managing credit risk at the enterprise level. The DBSH's Core Credit Risk Policy (CCRP) sets forth the principles by which the Head Office conducts its credit risk management and control activities. This policy, supplemented by a number of operational policies, ensures consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk at the Head Office, and provides guidance in the formulation of business-specific and/or location-specific credit risk policies. The business-specific and/or location-specific credit policies are established to provide greater details on the implementation of the credit principles within the CCRP and are adapted to reflect different credit environments and portfolio risk profiles.

Collateral

Where possible, the 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. The Branch 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.

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Collateral (continued)

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

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

In times of difficulty, the Branch will review each customer's specific facts and circumstances to assist them in restructuring their repayment liabilities.

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 throughout the entire customers' account lifecycle. The retail exposure credit risk is assessed based on credit scoring models, credit bureau record, internal and available external customers' behavior records and supplemented by risk assets acceptance criteria.

Wholesale exposures are assessed using approved credit models, reviewed and analysed by experienced credit risk managers taking into consideration the relevant credit risk factors. For portfolios within the SME segment, the Head Office also uses a programme-based approach for a balanced management of risks and rewards. Credit extensions are proposed by the business unit and are approved by the credit risk function based on independent credit assessment, while also taking into account the business strategies determined by senior management.

The Head Office actively monitors and manages its exposure to counterparties in over-the-counter (OTC) 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 (T&C) 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 proceeds used to reduce 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

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

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

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

Derivatives
The Head Office maintains collateral agreements and enters into master netting agreements with most of the counterparties for derivative transactions.

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

	2016 **MOP'000**	2015 MOP'000
Neither past due nor impaired	**3,288,959**	2,264,722
Past due but not impaired	**2,283**	858
Impaired	**25,231**	43,625
	3,316,473	2,309,205

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

2016	**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	**3,243,204**	**2,283**	**25,231**	**-**	**41,257**
Hong Kong	**37,515**	**-**	**-**	**-**	**473**
Others	**8,240**	**-**	**-**	**-**	**104**
	3,288,959	**2,283**	**25,231**	**-**	**41,834**

2015	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	2,228,190	858	43,625	11,844	30,363
Hong Kong	32,381	-	-	-	433
Others	4,151	-	-	-	55
	2,264,722	858	43,625	11,844	30,851

Financial derivatives analysed by geographic area

	2016 MOP'000	2015 MOP'000
Macau	**117,673**	430,785
Hong Kong	**63,053**	419,000
	180,726	849,785

	2016 MOP'000	2015 MOP'000
Credit risk-weighted amount	**4,291**	20,698

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

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

	2016 MOP'000	2015 MOP'000
Manufacturing	**1,566,834**	501,516
Construction and public works	**17,556**	7,404
Trade (wholesale and retail)	**1,232,075**	1,216,875
Restaurants, hotels and similar	**6,695**	-
Transport, warehouse and communications	**-**	-
Personal housing loans	**34,488**	39,272
Personal credits	**-**	-
Others	**431,311**	499,655
	3,288,959	2,264,722

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

	Past due		
2016	**Less than 1 month MOP'000**	**1-2 months MOP'000**	**Total MOP'000**
Manufacturing	**65**	**-**	**65**
Construction and public works	**-**	**-**	**-**
Trade (wholesale and retail)	**2,071**	**-**	**2,071**
Restaurants, hotels and similar	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**
Personal housing loans	**-**	**147**	**147**
Personal credits	**-**	**-**	**-**
Others	**-**	**-**	**-**
	2,136	**147**	**2,283**

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		
2015	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	858	-	858
Personal credits	-	-	-
Others	-	-	-
	858	-	858

(iii) Impaired loans and advances to customers

	2016 MOP'000	2015 MOP'000
Manufacturing	**-**	7,047
Construction and public works	**-**	-
Trade (wholesale and retail)	**22,349**	33,696
Restaurants, hotels and similar	**-**	-
Transport, warehouse and communications	**-**	-
Personal housing loans	**-**	-
Personal credits	**-**	-
Others	**2,882**	2,882
	25,231	43,625

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)

2016	**More than 6 months but not more than 1 year MOP'000**	**More than 1 year MOP'000**
Gross impaired loans and advances	**-**	**25,231**
Specific provision	**-**	**-**
	-	**25,231**
Impaired loans and advances covered by collateral	**-**	**25,231**
% of gross loans and advances to customers	**-**	**0.76**

2015	More than 6 months but not more than 1 year MOP'000	More than 1 year MOP'000
Gross impaired loans and advances	25,366	18,259
Specific provision	-	(11,844)
	25,366	6,415
Impaired loans and advances covered by collateral	25,366	6,415
% of gross loans and advances to customers	1.10	0.79

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of specific provision

	As at 1 January 2016 MOP'000	**Amounts written off MOP'000**	**Net charge to income statement MOP'000**	**As at 31 December 2016 MOP'000**
Manufacturing	**7,047**	**(7,053)**	**6**	**-**
Construction and public works	**-**	**-**	**-**	**-**
Trade (wholesale and retail)	**4,797**	**(4,797)**	**-**	**-**
Restaurants, hotels and similar	**-**	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**	**-**
Personal housing loans	**-**	**-**	**-**	**-**
Personal credits	**-**	**-**	**-**	**-**
Others	**-**	**-**	**-**	**-**
	11,844	**(11,850)**	**6**	**-**

	As at 1 January 2015 MOP'000	Amounts written off MOP'000	Write back from income statement MOP'000	As at 31 December 2015 MOP'000
Manufacturing	**-**	**-**	**7,047**	**7,047**
Construction and public works	**-**	**-**	**-**	**-**
Trade (wholesale and retail)	**4,171**	**(3,249)**	**3,875**	**4,797**
Restaurants, hotels and similar	**-**	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**	**-**
Personal housing loans	**-**	**-**	**-**	**-**
Personal credits	**-**	**-**	**-**	**-**
Others	**10,933**	**-**	**(10,933)**	**-**
	15,104	**(3,249)**	**(11)**	**11,844**

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of general provision

	As at 1 January 2016 MOP'000	**Net charge to income statement MOP'000**	**As at 31 December 2016 MOP'000**
Manufacturing	**6,794**	**12,971**	**19,765**
Construction and public works	**99**	**122**	**221**
Trade (wholesale and retail)	**16,708**	**(859)**	**15,849**
Restaurants, hotels and similar	**-**	**84**	**84**
Transport, warehouse and communications	**-**	**-**	**-**
Personal housing loans	**536**	**(99)**	**437**
Personal credits	**-**	**-**	**-**
Others	**6,714**	**(1,236)**	**5,478**
	30,851	**10,983**	**41,834**

	As at 1 January 2015 MOP'000	Net charge to income statement MOP'000	As at 31 December 2015 MOP'000
Manufacturing	8,455	(1,661)	6,794
Construction and public works	1,371	(1,272)	99
Trade (wholesale and retail)	12,240	4,468	16,708
Restaurants, hotels and similar	-	-	-
Transport, warehouse and communications	89	(89)	-
Personal housing loans	648	(112)	536
Personal credits	215	(215)	-
Others	7,137	(423)	6,714
	30,155	696	30,851

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:

2016	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	173,228	-	-	-	-	-	173,228
- AMCM monetary bills	-	169,987	29,990	-	-	-	199,977
- Loans and advances to customers	163,943	973,438	672,202	382,859	245,589	836,608	3,274,639
	337,171	1,143,425	702,192	382,859	245,589	836,608	3,647,844
Liabilities							
- Deposits from customers	1,653,145	213,937	330,514	96,366	19,330	-	2,313,292
- Amount due to Head Office	1,223,280	-	-	206,000	-	-	1,429,280
	2,876,425	213,937	330,514	302,366	19,330	-	3,742,572

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

2015	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	281,583	-	-	-	-	-	281,583
- AMCM monetary bills	-	129,996	89,989	-	-	-	219,985
- Loans and advances to customers	264,991	517,327	643,653	176,254	175,267	489,018	2,266,510
	546,574	647,323	733,642	176,254	175,267	489,018	2,768,078
Liabilities							
- Deposits from customers	1,371,128	221,887	539,372	88,785	17,659	-	2,238,831
- Amount due to Head Office	628,566	-	-	-	-	-	628,566
	1,999,694	221,887	539,372	88,785	17,659	-	2,867,397

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(b) Market risk

Market risk is the risk of loss arising from adverse changes in interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, as well as their correlations and implied volatilities.

The Head Office's Market Risk Management Policy sets out the overall approach towards market risk management. The Policy is supported by Standards which sets out guidance and requirements with more details for specific subject matters. The set of Policy, Standards and supporting Guides facilitate the identification, measurement, control, monitoring and reporting of market risk in a consistent manner.

The Hong Kong Market and Liquidity Risk Committee (HK MLRC), which reports to the Hong Kong Risk Executive Committee, oversees the Head Office's effectiveness of market and liquidity risk management framework including policies, models, people, systems, processes, information and methodologies.

Majority of the Branch's market risk arises from (i) positions taken for client-facilitation; (ii) positions taken to manage the interest rate risk of the retail and commercial banking assets and liabilities; (iii) debt securities held for liquidity risk management.

Foreign exchange risk

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

2016	**USD** **MOP'000**	**HKD** **MOP'000**	**CNY** **MOP'000**	**Others** **MOP'000**	**Total** **MOP'000**
Macau Patacas equivalents					
Spot assets	**1,703,641**	**2,222,209**	**-**	**218,647**	**4,144,497**
Spot liabilities	**(1,697,157)**	**(2,209,921)**	**-**	**(218,421)**	**(4,125,499)**
Forward purchases	**61,436**	**50,259**	**12,769**	**2,826**	**127,290**
Forward sales	**(61,436)**	**(50,217)**	**(12,769)**	**(2,826)**	**(127,248)**
Net position	**6,484**	**12,330**	**-**	**226**	**19,040**

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

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

Foreign exchange risk (continued)

2015	USD MOP'000	HKD MOP'000	CNY MOP'000	Others MOP'000	Total MOP'000
Macau Patacas equivalents					
Spot assets	1,358,289	1,624,253	-	188,338	3,170,880
Spot liabilities	(1,353,412)	(1,622,211)	-	(188,225)	(3,163,848)
Forward purchases	191,202	72,703	115,619	864	380,388
Forward sales	(191,202)	(72,688)	(115,619)	(864)	(380,373)
Net position	4,877	2,057	-	113	7,047

Interest rate risk in the banking book

The Branch simulates the 1-year net interest income impact under various interest rate scenarios in which market interest rates move up/down 100/200 basis points and administrative interest rates move up/down 25/50 basis points respectively. The following sets out the changes in projected net interest income under adverse scenarios.

	2016 **Change in projected net interest income** **MOP'000**	2015 Change in projected net interest income MOP'000
Worst case scenarios		
Market rate down 100 bps, Admin rate down 25 bps	**(5,825)**	(2,403)
Market rate down 200 bps, Admin rate down 50 bps	**(9,810)**	(5,445)

1 Financial Risk Management (continued)

(c) Operational risk

Operational risk arises from inadequate or failed internal processes, people or systems, or from external events. It includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in most of the 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 approach for operational risk management comprises the following building blocks:

- **Policies**

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

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

- **Risk Methodologies**

To manage and control operational risk, there are various tools including risk and control self-assessment, operational risk event management and key risk indicators monitoring. Risk and control self-assessment is used by each business or support unit to identify key operational risk and assess the degree of effectiveness of the internal controls. For those control issues identified, the units are responsible to develop action plans and track the timely resolution of these issues. Operational risk events are classified in accordance with Basel standards. Such events, including any significant incidents that may impact the 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, risk and control self-assessment, key risk indicators, tracking of issues or action plans and operational risk reporting.

Units are responsible for the day-to-day management of operational risk in their products, processes, systems and activities in accordance with the various policies. 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

Liquidity risk arises from its obligations to honor withdrawals of deposits, repayments of borrowed funds at maturity, and commitments to extend loans to our customers. 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 Head Office Liquidity Risk Management Policy sets out the overall approach towards liquidity risk management and describes the range of strategies employed by the Branch to manage its liquidity. These include maintaining an adequate liquidity buffer, 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 maintains adequate liquidity.

The primary measure used to manage liquidity within the tolerance defined by the HK MLRC for the Branch is the maturity mismatch analysis. The analysis is performed on a regular basis under normal and adverse scenarios. It assesses the adequacy of the counterbalancing capacity to fund or mitigate any cash flow shortfalls that may occur as forecasted in the cash flow movements across successive time bands. Processes and systems are in place to measure, limit and control exposures based on the risk methodologies defined.

Liquidity risk control measures, such as liquidity-related ratios, are complementary tools to the maturity mismatch analysis and are performed regularly to obtain deeper insights and finer control over the liquidity profile of the Branch.

Oversight relating to the management of liquidity risk across the Head Office, including the Branch, is provided by the HK MLRC, which reports to the Hong Kong Risk Executive Committee. The Hong Kong Asset and Liability Committee regularly reviews the balance sheet composition, trends in loans and deposits, utilization of wholesale funding, momentum in business activities, market competition, economic outlooks, market conditions and other factors that may affect liquidity in the continual refinement of the Branch's funding strategy.

	2016	2015
	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	**70,718**	76,046
The arithmetic mean of the amount of cash in hand during the year	**186,192**	180,999
The arithmetic mean of the specified liquid assets at the end of each month during the year	**1,342,678**	1,491,870
	%	%
The average ratio of specified liquid asset to total basic liabilities at the end of each month during the year	**49.8**	51.4
The arithmetic mean of one-month liquidity ratio in the last week of each month during the year	**161.9**	120.3
The arithmetic mean of three-month liquidity ratio in the last week of each month during the year	**215.9**	196.1

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INFORMATION

1 Capital adequacy

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

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

2 Other financial information

	For the year ended 31 December 2016 HK$'M	For the year ended 31 December 2015 HK$'M
Profit before income tax	**2,252**	3,664

	As at 31 December 2016 HK$'M	As at 31 December 2015 HK$'M
Total assets	**348,964**	307,812
Total liabilities	**313,829**	274,397
Gross loans and advances to customers	**147,755**	161,558
Due to banks	**14,610**	9,689
Deposits and balances from customers	**274,151**	241,065
Total equity	**35,135**	33,415

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
Dominic Chiu Fai Ho
Ng Chee Siong, Robert
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