DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

ANNUAL REPORT 2018

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CONTENTS

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2018

MOP

Assets	Total assets	Provision, accumulated depreciation and impairments	Net total assets
Cash	18,815,256.62		18,815,256.62
Deposits with AMCM	148,841,619.53		148,841,619.53
Interbank assets with local credit institutions	65,217,074.11		65,217,074.11
Interbank assets with credit institutions abroad	561,820,861.16		561,820,861.16
Loans and advances	2,117,436,410.81	1,144,240.13	2,116,292,170.68
Applications in local credit institutions	319,713,330.02		319,713,330.02
Equipment	1,487,231.92	1,246,070.55	241,161.37
Installation expenditure	2,982,733.13	2,666,321.71	316,411.42
Other fixed assets	580,165.97	580,165.97	-
Internal and adjustment accounts	509,901,262.65		509,901,262.65
Total	3,746,795,945.92	5,636,798.36	3,741,159,147.56

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET AS AT 31 DECEMBER 2018

MOP

Liabilities	**Sub-total**	**Total**
Demand deposits and saving accounts	1,378,165,140.34	
Call deposits	85,234.18	
Time deposits	582,814,077.54	1,961,064,452.06
Interbank liabilities to local credit institutions	-	
Interbank liabilities to credit institutions abroad	1,121,121,453.23	
Cheques and orders payable	54,522,744.62	
Other liabilities	516,388,136.74	1,692,032,334.59
Internal and adjustment accounts	24,433,398.70	
Exposure provisions	25,894,352.66	50,327,751.36
Profit & loss for the year	37,734,609.55	37,734,609.55
Total		3,741,159,147.56

MOP

Memorandum accounts	**Total**
Bills for collection	29,214,921.15
Collaterals	11,232,160,858.92
Guarantees on account of customers	23,166,816.10
Letter of credit outstanding	399,978,872.74
Forward exchange contracts purchase	-
Forward exchange contracts sale	-
Other memorandum items	4,420,456,900.44

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 2018

Operating profit & loss

MOP

Debit	**Amount**	**Credit**	**Amount**
Costs of credit operations	22,740,962.23	Income from credit operations	82,572,036.36
Personnel costs		Income from banking services	10,064,559.99
Staff remuneration	16,602,312.28	Income from other banking services	4,104,831.70
Staff welfare	1,326,577.31	Other banking income	2,560,788.30
Other staff costs	397,780.93		
Third party supply	684,717.68		
Third party services	24,641,869.84		
Other banking costs	688,024.96		
Taxation	161,170.00		
Costs of non-banking operations	172,787.51		
Depreciation allowances	206,637.12		
Provision allowances	1,144,240.13		
Operating profit	30,535,136.36		
Total	99,302,216.35	Total	99,302,216.35

Profit & loss account

MOP

Debit	**Amount**	**Credit**	**Amount**
Operating loss		Operating profit	30,535,136.36
Loss related to previous year		Profit related to previous years	12,267,419.19
Profit tax provision	5,067,946.00	Provisions used up	
Profit for the year	37,734,609.55	Loss for the year	
Total	42,802,555.55	Total	42,802,555.55

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BUSINESS REPORT

The Branch recorded a net profit of MOP38 million in 2018, a decrease of 20% as compared with last year, which was mainly due to less interest and fee income received. Net interest income decreased by 18% to MOP60 million, while other operating income also decreased by 28% to MOP17 million. Total expenses were maintained at MOP45 million which were comparable with last year. The decrease in total loans and advances by 36% to MOP2.12 billion, resulted in the write-back of MOP 11 million loan provisions in 2018. Total customer deposits decreased by 13% to MOP1.96 billion, and net total assets were MOP3.74 billion, a decrease of 21%.

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 20 which comprise the balance sheet as at 31 December 2018, 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 2018 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 2018 are consistent with those used in the preceding year.

Cheung Pui Peng Grace
Registered Auditor
PricewaterhouseCoopers

Macao, 5 March 2019

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **MOP'000**	2017 MOP'000
Interest income		**82,572**	91,509
Interest expense		**(22,741)**	(18,414)
Net interest income		**59,831**	73,095
Net fee and commission income	4	**9,955**	16,702
Other income	4	**6,137**	6,001
Total income		**75,923**	95,798
Total expenses	5	**(44,243)**	(46,091)
Profit before provisions		**31,680**	49,707
Provision write-back for bad and doubtful debts	11	**11,123**	3,673
Profit before income tax		**42,803**	53,380
Income tax expense	6	**(5,068)**	(6,350)
Profit for the year		**37,735**	47,030

Cheng Kwong Moon
Bank Representative

Pun Kai, Leo
Bank Representative

The notes on pages 10 to 20 form part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Notes	**2018** **MOP'000**	2017 MOP'000
ASSETS			
Cash and balances with banks	7	**178,687**	178,176
Deposits with Autoridade Monetaria de Macao ("AMCM")	8	**148,842**	146,225
Amount due from Head Office	15	**467,165**	166,595
AMCM monetary bills	9	**319,713**	359,921
Loans and advances to customers	10	**2,090,399**	3,295,482
Other assets	12	**496,749**	531,890
Fixed assets	13	**557**	240
		3,702,112	4,678,529
LIABILITIES			
Deposits from customers	14	**1,961,064**	2,253,332
Amount due to Head Office	15	**1,121,121**	1,854,140
Other liabilities	16	**577,093**	517,656
Current income tax liabilities		**5,099**	6,371
		3,664,377	4,631,499
NET ASSETS		**37,735**	47,030
REPRESENTED BY			
Reserve		**37,735**	47,030

Cheng Kwong Moon
Bank Representative

Pun Kai, Leo
Bank Representative

The notes on pages 10 to 20 form part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

STATEMENT OF CHANGES IN RESERVE
FOR THE YEAR ENDED 31 DECEMBER 2018

Retained earnings	Notes	**2018** **MOP'000**	2017 MOP'000
Balance at 1 January		**47,030**	28,954
Profit for the year		**37,735**	47,030
Transfer to Head Office	17	**(47,030)**	(28,954)
Balance at 31 December		**37,735**	47,030

The notes on pages 10 to 20 form part of these financial statements.

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 MOP'000	2017 MOP'000
Cash flow from operating activities			
Profit before income tax		**42,803**	53,380
Adjustment for non-cash items:			
Depreciation	13	**207**	239
Provision write-back for bad and doubtful debts	11	**(11,123)**	(3,673)
Profit before changes in operating assets and liabilities		**31,887**	49,946
Decrease/(increase) in loans and advances to customers		**1,216,206**	(17,170)
Decrease/(increase) in minimum deposits with AMCM	8	**5,573**	(1,787)
Decrease in other assets		**35,141**	46,960
Decrease in deposits from customers		**(292,268)**	(59,960)
Increase/(decrease) in other liabilities		**59,437**	(94,943)
(Decrease)/increase in amount due to Head Office		**(733,019)**	279,613
Cash inflow from operating activities before income tax		**322,957**	202,659
Macao complementary tax paid		**(6,340)**	(3,847)
Cash inflow from operating activities		**316,617**	198,812
Cash flows from investing activities			
Purchase of fixed assets	13	**(524)**	(27)
Cash outflow from transfer to Head Office	17	**(47,030)**	(28,954)
Increase in cash and cash equivalents		**269,063**	169,831
Cash and cash equivalents at 1 January		**797,627**	627,796
Cash and cash equivalents at 31 December		**1,066,690**	797,627

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	2018 MOP'000	2017 MOP'000
Cash and balances with banks	7	**178,687**	178,176
Deposits with AMCM in excess of minimum requirement	8	**101,125**	92,935
Amount due from Head Office	15	**467,165**	166,595
AMCM monetary bills	9	**319,713**	359,921
		1,066,690	797,627

The notes on pages 10 to 20 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. DHB Limited is the immediate holding company and DBS Bank Ltd is the 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.

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) Income 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) Income 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, AMCM deposits in excess of minimum requirement, amount due from Head Office 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 as 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 that can be used to offset payables taxes 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2018	2017
	MOP'000	MOP'000
Fee and commission income	**10,594**	17,335
Less: Fee and commission expense	**(639)**	(633)
Net fee and commission income	**9,955**	16,702
Net trading income from foreign exchange	**3,576**	3,014
Others	**2,561**	2,987
Other income	**6,137**	6,001

5 Total expenses

	Note	**2018**	2017
		MOP'000	MOP'000
Employee benefits		**18,223**	18,160
Computerisation expenses		**11,203**	11,744
Management service fees		**4,395**	5,023
Rental of premises		**3,357**	3,213
Auditor's remuneration		**270**	270
Depreciation	13	**207**	239
Other operating expenses		**6,588**	7,442
		44,243	46,091

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 2018 and year 2017, 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:

	2018	2017
	MOP'000	MOP'000
Profit before income tax	**42,803**	53,380
Tax calculated at 12%	**5,136**	6,406
Effect of progressive tax rate before 12%	**(17)**	(17)
Special complementary tax incentives	**(55)**	(55)
Overprovision in prior years written back	**(2)**	-
Others	**6**	16
Income tax expense	**5,068**	6,350

No deferred taxation has been provided as there were no significant temporary differences at the balance sheet date (2017: Nil).

7 Cash and balances with banks

	2018	2017
	MOP'000	MOP'000
Cash in hand	**18,815**	15,586
Balances with banks	**159,872**	162,590
	178,687	178,176

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Deposits with AMCM

	2018 MOP'000	2017 MOP'000
Balance with AMCM	**148,842**	146,225

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 2018, the minimum deposit required were MOP47,717,000 (2017: MOP53,290,000).

9 AMCM monetary bills

	2018 MOP'000	2017 MOP'000
Monetary bills issued by AMCM, at amortised cost	**319,713**	359,921

10 Loans and advances to customers

	2018 MOP'000	2017 MOP'000
Gross loans and advances to customers	**2,020,280**	3,159,683
Trade bills	**97,157**	173,960
Less: Specific provision (note 11)	**(1,144)**	(554)
General provision (note 11)	**(25,894)**	(37,607)
	2,090,399	3,295,482

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Provision for bad and doubtful debts

	Specific provision MOP'000	General provision MOP'000	Total MOP'000
2018			
At 1 January 2018	**554**	**37,607**	**38,161**
(Write-back)/charge to income statement	**590**	**(11,713)**	**(11,123)**
At 31 December 2018 (note 10)	**1,144**	**25,894**	**27,038**
2017			
At 1 January 2017	-	41,834	41,834
(Write-back)/charge to income statement	554	(4,227)	(3,673)
At 31 December 2017 (note 10)	554	37,607	38,161

12 Other assets

	2018 MOP'000	2017 MOP'000
Accrued interest receivables	**4,287**	5,380
Acceptances (Note 16)	**487,916**	469,471
Others	**4,546**	57,039
	496,749	531,890

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Fixed assets – Furniture, fixtures and equipment

	2018 **MOP'000**	2017 MOP'000
Cost:		
At 1 January	**4,526**	4,499
Additions	**524**	27
At 31 December	**5,050**	4,526
Accumulated depreciation:		
At 1 January	**4,286**	4,047
Charge for the year	**207**	239
At 31 December	**4,493**	4,286
Net book value:		
At 31 December	**557**	240

14 Deposits from customers

	2018 **MOP'000**	2017 MOP'000
Demand deposits and current accounts	**529,488**	676,934
Savings deposits	**848,677**	910,777
Time and call deposits	**582,899**	665,621
	1,961,064	2,253,332

15 Amount due from/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 bearing interest rates as determined from time to time by Head Office.

16 Other liabilities

	2018	2017
	MOP'000	MOP'000
Accrued interest payable	**2,449**	3,325
Acceptance (Note 12)	**487,916**	469,471
Other liabilities and provisions	**86,728**	44,860
	577,093	517,656

17 Transfer to Head Office

During the year, the Branch transferred an amount of MOP47,030,000 from its retained earnings (2017: MOP28,954,000) to Head Office.

18 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:

	2018	2017
	MOP'000	MOP'000
Transaction-related contingencies	**19,838**	24,125
Trade-related contingencies	**403,308**	394,667
Other commitments which are unconditionally cancellable	**4,406,607**	4,031,764
	4,829,753	4,450,556

(b) Lease commitments

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

	2018	2017
	MOP'000	MOP'000
Not later than one year	**664**	1,490
Later than one year and not later than five years	**-**	664
	664	2,154

19 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.

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:

	2018	2017
	MOP'000	MOP'000
Interest income	**4,795**	1,253
Interest expense	**(12,325)**	(12,186)
Other income	**1,432**	1,397
Total expenses charged	**(17,258)**	(18,506)

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

	2018	2017
	MOP'000	MOP'000
Amount due from Head Office	**467,165**	166,595
Amount due to Head Office	**1,121,121**	1,854,140
Other liabilities	**2,640**	4,018
	1,123,761	1,858,158

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

As at 31 December 2018, total contingent liabilities and commitments with Head Office and Intermediate Holding Company amounted to MOP13,438,000 (2017: MOP18,538,000).

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 management approach, the Board of Directors, through the Board Risk Management Committee (BRMC), sets risk appetite, oversees the establishment of enterprise-wide risk management policies and processes, and set risk appetite limits to guide risk-taking of the Head Office.

(a) Credit risk

Credit risk arises from the Branch's daily activities in various businesses. These activities include lending to retail, corporate and institutional customers. It includes both the risk of lending as well as the pre-settlement and settlement risk of foreign exchange, derivatives and debt securities.

Credit Risk Management
The Head Office's approach to credit risk management comprises the following building blocks:

- **Policies**

The dimensions of credit risk and the scope of its application are defined in DBSH's Credit Risk Management Policy. Senior management sets the overall direction and policy for managing credit risk at the enterprise level.

DBSH's Core Credit Risk Policies established for Consumer Banking/Wealth Management and Institutional Banking (herein referred to as "CCRPs") set forth the principles by which DBS conducts its credit risk management and control activities. These policies, supplemented by a number of operational policies and standards, ensure consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across DBS, and provide guidance in the formulation of business-specific and/or location-specific credit risk policies and standards.

The operational policies and standards are established to provide greater details on the implementation of the credit principles within the CCRPs and are adapted to reflect different credit environments and portfolio risk profiles.

- **Risk Methodologies**

Credit risk is managed by thoroughly understanding our customers – the businesses they are in, as well as the economies in which they operate.

The assignment of credit risk ratings and setting of lending limits is an integral part of DBS' credit risk management process, and we use an array of rating models for our corporate and retail portfolios.

Wholesale borrowers are assessed individually using both judgmental credit risk models and statistical credit risk models. They are further reviewed and evaluated by experienced credit risk managers who consider the relevant credit risk factors in the final determination of the borrower's risk. For some portfolios within the SME segment, DBS also uses a programme-based approach to achieve a balanced management of risks and rewards. Retail exposures are assessed using internally and externally available customer behaviour records. Credit extensions are proposed by the business unit, and these are approved by the credit risk function after taking into account independent credit assessments and the business strategies set by senior management.

1 Financial Risk Management (continued)

(a) *Credit risk (continued)*

Pre-settlement credit risk for derivatives arising from a counterparty potentially defaulting on its obligations is quantified by evaluation of the market price plus potential future exposure.

The Head Office actively monitors and manages its exposure to counterparties in over-the-counter ("OTC") derivative trades to protect its statement of financial position in the event of a counterparty default. DBSH has a policy to guide handling of specific wrong-way risk transactions.

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 refers to the risk of loss due to events in a specific country (or a group of countries). This includes political, exchange rate, economic, sovereign and transfer risks. The Head Office manages country risk as part of concentration risk management.

Credit 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 continually being reviewed and improved through various front-to-back initiatives involving the business units, the operations units, the Risk Management Group 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 and dispose of them as soon as practicable. Realised proceeds are used to reduce the outstanding indebtedness.

Credit Risk Mitigants

Collateral Received
Where possible, the Head Office takes collateral as a secondary recourse to the borrower. This includes, but not limited to, cash, marketable securities, real estate, trade receivables, inventory and equipment, and other physical and/or financial collateral. The Head Office may also take fixed and floating charges on the assets of borrowers.

Policies are in place to determine the eligibility of collateral for credit risk mitigation. These include requiring specific collateral to meet minimum operational requirements in order to be considered as effective risk mitigants. The Head Office's collateral is generally diversified and periodic valuations of collateral are required.

1 Financial Risk Management (continued)

(a) *Credit risk (continued)*

For derivatives, repurchase agreements (repo) and other repo-style transactions with financial market counterparties, collateral arrangements are typically covered under market standard documentation, such as International Swaps & Derivatives Association (ISDA) Agreements and Master Repurchase Agreements. The collateral received is marked-to-market on a frequency the Head Office and the counterparties mutually agreed upon, governed by internal guidelines with respect to collateral eligibility. In the event of a default, the credit risk exposure is reduced by master-netting arrangements where the Head Office is allowed to offset what the Head Office owes a counterparty against what is due from that counterparty in a netting-eligible jurisdiction.

In times of difficulty, the Head Office will review the customer's specific situation and circumstances to assist them in restructuring their repayment liabilities.

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.

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

	2018	2017
	MOP'000	MOP'000
Neither past due nor impaired	**2,074,891**	3,257,524
Past due but not impaired	**3,462**	1,780
Impaired	**39,084**	74,339
	2,117,437	3,333,643

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) *Credit risk (continued)*

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

Loans and advances to customers analysed by geographic area

2018	**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	**1,926,532**	**3,462**	**39,084**	**1,144**	**24,046**
Hong Kong	**148,359**	**-**	**-**	**-**	**1,848**
	2,074,891	**3,462**	**39,084**	**1,144**	**25,894**

2017	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	3,062,233	1,780	74,339	554	35,354
Hong Kong	100,877	-	-	-	1,164
Others	94,414	-	-	-	1,089
	3,257,524	1,780	74,339	554	37,607

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

	2018 MOP'000	2017 MOP'000
Manufacturing	**528,764**	1,722,080
Construction and public works	**36,502**	27,239
Trade (wholesale and retail)	**1,042,761**	1,029,515
Restaurants, hotels and similar	**-**	-
Transport, warehouse and communications	**-**	-
Personal housing loans	**21,109**	28,610
Personal credits	**13,304**	13,305
Others	**432,451**	436,775
	2,074,891	3,257,524

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

	Past due		
2018	**Less than 1 month MOP'000**	**1-2 months MOP'000**	**Total MOP'000**
Manufacturing	**2,369**	**-**	**2,369**
Construction and public works	**-**	**-**	**-**
Trade (wholesale and retail)	**-**	**-**	**-**
Restaurants, hotels and similar	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**
Personal housing loans	**984**	**109**	**1,093**
Personal credits	**-**	**-**	**-**
Others	**-**	**-**	**-**
	3,353	**109**	**3,462**

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		
2017	Less than 1 month MOP'000	1-2 months MOP'000	Total MOP'000
Manufacturing	610	659	1,269
Construction and public works	-	-	-
Trade (wholesale and retail)	-	-	-
Restaurants, hotels and similar	-	-	-
Transport, warehouse and communications	-	-	-
Personal housing loans	511	-	511
Personal credits	-	-	-
Others	-	-	-
	1,121	659	1,780

(iii) Impaired loans and advances to customers

	2018 MOP'000	2017 MOP'000
Manufacturing	**1,144**	-
Construction and public works	**-**	-
Trade (wholesale and retail)	**35,058**	71,457
Restaurants, hotels and similar	**-**	-
Transport, warehouse and communications	**-**	-
Personal housing loans	**-**	-
Personal credits	**-**	-
Others	**2,882**	2,882
	39,084	74,339

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)

2018	**More than 3 months but not more than 6 months MOP'000**	**More than 1 year MOP'000**
Gross impaired loans and advances	1,144	37,940
Specific provision	(1,144)	-
	-	37,940
Impaired loans and advances covered by collateral	-	37,940
% of gross loans and advances to customers	0.05	1.79

2017	Less than 3 months MOP'000	More than 1 year MOP'000
Gross impaired loans and advances	48,604	25,735
Specific provision	(554)	-
	48,050	25,735
Impaired loans and advances covered by collateral	48,050	25,735
% of gross loans and advances to customers	1.46	0.77

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of specific provision

	As at 1 January 2018 MOP'000	**Net charge to income statement MOP'000**	**As at 31 December 2018 MOP'000**
Manufacturing	**-**	**1,144**	**1,144**
Construction and public works	**-**	**-**	**-**
Trade (wholesale and retail)	**554**	**(554)**	**-**
Restaurants, hotels and similar	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**
Personal housing loans	**-**	**-**	**-**
Personal credits	**-**	**-**	**-**
Others	**-**	**-**	**-**
	554	**590**	**1,144**

	As at 1 January 2017 MOP'000	Net charge to income statement MOP'000	As at 31 December 2017 MOP'000
Manufacturing	-	-	-
Construction and public works	-	-	-
Trade (wholesale and retail)	-	554	554
Restaurants, hotels and similar	-	-	-
Transport, warehouse and communications	-	-	-
Personal housing loans	-	-	-
Personal credits	-	-	-
Others	-	-	-
	-	554	554

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of general provision

	As at 1 January 2018 MOP'000	**Write-back to income statement MOP'000**	**As at 31 December 2018 MOP'000**
Manufacturing	**19,885**	**(13,268)**	**6,617**
Construction and public works	**314**	**141**	**455**
Trade (wholesale and retail)	**11,879**	**1,112**	**12,991**
Restaurants, hotels and similar	**-**	**-**	**-**
Transport, warehouse and communications	**-**	**-**	**-**
Personal housing loans	**336**	**(59)**	**277**
Personal credits	**154**	**12**	**166**
Others	**5,039**	**349**	**5,388**
	37,607	**(11,713)**	**25,894**

	As at 1 January 2017 MOP'000	Write-back to income statement MOP'000	As at 31 December 2017 MOP'000
Manufacturing	19,765	120	19,885
Construction and public works	221	93	314
Trade (wholesale and retail)	15,849	(3,970)	11,879
Restaurants, hotels and similar	84	(84)	-
Transport, warehouse and communications	-	-	-
Personal housing loans	437	(101)	336
Personal credits	-	154	154
Others	5,478	(439)	5,039
	41,834	(4,227)	37,607

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:

	Repayable on demand	Less than 1 month	3 months or less but over 1 month	1 year or less but over 3 months	3 years or less but over 1 year	After 3 years	Balancing	
2018	**MOP'000**	**MOP'000**	**MOP'000**	**MOP'000**	**MOP'000**	**MOP'000**	**MOP'000**	**MOP'000**
Assets								
- Cash and balances with banks	**178,687**	**-**	**-**	**-**	**-**	**-**	**-**	**178,687**
- Amount due from Head Office	**467,165**	**-**	**-**	**-**	**-**	**-**	**-**	**467,165**
- AMCM monetary bills	**-**	**319,713**	**-**	**-**	**-**	**-**	**-**	**319,713**
- Loans and advances to customers	**185,929**	**584,951**	**404,375**	**300,860**	**189,070**	**384,783**	**40,431**	**2,090,399**
	831,781	**904,664**	**404,375**	**300,860**	**189,070**	**384,783**	**40,431**	**3,055,964**
Liabilities								
- Deposits from customers	**1,378,250**	**243,461**	**242,091**	**97,262**	**-**	**-**	**-**	**1,961,064**
- Amount due to Head Office	**91,121**	**515,000**	**515,000**	**-**	**-**	**-**	**-**	**1,121,121**
	1,469,371	**758,461**	**757,091**	**97,262**	**-**	**-**	**-**	**3,082,185**

DBS BANK (HONG KONG) LIMITED - MACAU BRANCH

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(a) Credit risk (continued)

2017	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	Balancing MOP'000	MOP'000
Assets								
- Cash and balances with banks	178,176	-	-	-	-	-	-	178,176
- Amount due from Head Office	166,595	-	-	-	-	-	-	166,595
- AMCM monetary bills	-	359,921	-	-	-	-	-	359,921
- Loans and advances to customers	448,167	804,254	602,653	204,547	709,047	448,133	78,681	3,295,482
	792,938	1,164,175	602,653	204,547	709,047	448,133	78,681	4,000,174
Liabilities								
- Deposits from customers	1,587,796	242,242	298,286	125,008	-	-	-	2,253,332
- Amount due to Head Office	1,133,140	309,000	206,000	206,000	-	-	-	1,854,140
	2,720,936	551,242	504,286	331,008	-	-	-	4,107,472

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, 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:

2018	**USD MOP'000**	**HKD MOP'000**	**CNY MOP'000**	**Others MOP'000**	**Total MOP'000**
Macau Patacas equivalents					
Spot assets	**1,202,208**	**1,832,398**	**2,723**	**200,859**	**3,238,188**
Spot liabilities	**(1,195,764)**	**(1,843,215)**	**(1,562)**	**(200,082)**	**(3,240,623)**
Forward purchases	**-**	**-**	**-**	**-**	**-**
Forward sales	**-**	**-**	**-**	**-**	**-**
Net position	**6,444**	**(10,817)**	**1,161**	**777**	**(2,435)**

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

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

Foreign exchange risk (continued)

2017	USD MOP'000	HKD MOP'000	CNY MOP'000	Others MOP'000	Total MOP'000
Macau Patacas equivalents					
Spot assets	1,605,255	2,287,089	1,798	249,168	4,143,310
Spot liabilities	(1,598,199)	(2,282,233)	(572)	(248,643)	(4,129,647)
Forward purchases	-	-	-	-	-
Forward sales	-	-	-	-	-
Net position	7,056	4,856	1,226	525	13,663

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.

	2018 Change in projected net interest income MOP'000	2017 Change in projected net interest income MOP'000
Worst case scenarios		
Market rate down 100 bps, Admin rate down 25 bps	**(6,276)**	(6,135)
Market rate down 200 bps, Admin rate down 50 bps	**(13,659)**	(8,685)

1 Financial Risk Management (continued)

(c) Operational risk

Operational risk is inherent in our business activities and it may arise from inadequate or failed internal processes, people or systems, or external events.

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 our economic and regulatory environment.

Operational Risk Management

The Head Office's approach to operational risk management comprises the following building blocks:

- **Policies**

The Head Office Operational Risk Management (ORM) Policy sets our 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**

The Head Office adopts the standardised approach to compute operational risk regulatory capital.

To manage and control operational risk, the Head Office uses various tools including risk and control self-assessment, operational risk event management and key risk indicator monitoring.

The Head Office's 3 lines of defence adopted one common risk universe and taxonomy, and a consistent risk assessment approach to manage operational risks. Risk and control self-assessment is conducted by each business or support unit to identify key operational risk and assess the effectiveness of internal controls. When control issues are identified, the units develop action plans and track the resolution of the issues.

Operational risk events are classified in accordance with Basel standards. Such events, including any significant incidents that may impact the Branch's reputation, must 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.

Additional methodologies are in place to address subject-specific risks, including, but not limited to, the following:

Technology risk
Information Technology (IT) risk is managed through an enterprise technology risk approach. This covers risk governance, communication, monitoring, assessment, mitigation and acceptance, and is supported by a set of IT policies and standards, control processes and risk mitigation programmes.

Along with the Head Office's digital journey and the evolving cyber risk landscape, we have defined a dedicated cybersecurity platform team to address cyber risk in a holistic manner along with the alignment of the Chief Information Security Officer ("CISO") function into the cybersecurity platform.

1 Financial Risk Management (continued)

(c) Operational risk (continued)

Compliance risk
Compliance risk refers to the risk of the Branch not being able to successfully conduct our business because of any failure to comply with laws, regulatory requirements, industry codes or standards of business and professional conduct applicable to the financial sector.

This includes, in particular, laws and regulations applicable to the licensing and conducting of banking or other financial businesses, financial crime such as anti-money laundering and countering the financing of terrorism, fraud and bribery/corruption. The Head Office maintains a compliance programme designed to identify, assess, measure, mitigate and report on such risks through a combination of policy and relevant systems and controls.

The Head Office also provides relevant training and implements assurance processes. We strongly believe in the need to promote a strong compliance culture as well, and this is developed through the leadership of our Board and senior management.

Fraud risk
The Head Office has established minimum standards for our business and support units to prevent, detect, investigate and remediate fraud and related events. This is based on the Fraud Management Programme, through which standards are implemented at the unit and geographical levels. These standards aim to provide end-to-end management for fraud and related issues within the Branch.

Money laundering, financing of terrorism and sanctions risks
There are minimum standards for the Head Office's business and support units to mitigate and manage our actual and/or potential exposure to money laundering, terrorist financing, sanctions, corruption, or other illicit financial activities. Accountabilities have also been established for the protection of the Branch's assets and reputation, as well as the interests of our customers and shareholders.

New product and outsourcing risks
Each new product, service or outsourcing initiative is subject to a risk review and sign-off process, where relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Variations of existing products or services and outsourcing initiatives are also subject to a similar process.

Other mitigation programmes
To manage business disruptions effectively, business continuity management is vital as part of the Branch's risk mitigation programme.

A robust business continuity management programme is in place within essential banking services for unforeseen events or business disruptions. Planning for business resilience includes the identification of key business processes and resources via Business Impact Analysis and documented in the Business Continuity Plan (BCP).

The Head Office's BCP aims to minimise the impact of business interruption stemming from severe loss scenarios, and provide a reasonable level of service until normal business operations are resumed. Within the crisis management structure, an incident management process is established which provides guidance on incident severity assessment, roles and responsibilities of process owners and escalation protocols for the effective management a crisis.

1 Financial Risk Management (continued)

(c) Operational risk (continued)

Exercises are conducted annually, simulating different scenarios to test BCPs and crisis management protocol. These scenarios include technology issues affecting essential banking services at the Head Office, natural disasters with wide geographical impact, safety-at-risk incidents (e.g. terrorism) and other events leading to significant business disruption. The effectiveness of these exercises, as well as the Head Office's business continuity readiness, our alignment to regulatory guidelines and our disclosure of residual risks, are communicated and attested by senior management to the BRMC on an annual basis.

To mitigate losses from specific unexpected and significant event risks, the Head Office purchases group-wide insurance policies – under the Group Insurance Programme – from third-party insurers. The Head Office has acquired insurance policies relating to crime and professional indemnity; directors and officers liability, cyber property damage and business interruption, general liability, and terrorism.

- **Processes, systems and reports**

Robust internal control processes and systems are integral to identifying, monitoring, managing and reporting operational risk.

All 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. The RMG Operational Risk unit and other corporate oversight and control functions oversee and monitor the effectiveness of operational risk management, assess key operational risk issues with the units, and report and/or escalate key operational risks to risk committees with recommendations on appropriate risk mitigation strategies.

The Head Office implmented an integrated governance, risk & compliance system with aligned risk assessment methodology, common taxonomy and unified processes for the 3 lines of defence.

(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.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Financial Risk Management (continued)

(d) Liquidity risk (continued)

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.

	2018 MOP'000	2017 MOP'000
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held during the year	**73,596**	79,441
The arithmetic mean of the amount of cash in hand during the year	**173,440**	187,853
The arithmetic mean of the specified liquid assets at the end of each month during the year	**1,582,775**	1,239,601
	%	%
The average ratio of specified liquid asset to total basic liabilities at the end of each month during the year	**58.4**	42.2
The arithmetic mean of one-month liquidity ratio in the last week of each month during the year	**406.6**	275.0
The arithmetic mean of three-month liquidity ratio in the last week of each month during the year	**124.3**	141.8

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INFORMATION

1 Capital adequacy

The capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority.

	As at 31 December 2018	As at 31 December 2017
Capital Adequacy Ratios		
Common Equity Tier 1	**15.1%**	16.1%
Tier 1	**15.7%**	16.7%
Total	**17.7%**	18.8%

2 Other financial information

	For the year ended 31 December 2018	For the year ended 31 December 2017*
	HK$'M	HK$'M
Profit before income tax	**6,042**	4,691

	As at 31 December 2018	As at 31 December 2017*
	HK$'M	HK$'M
Total assets	**445,661**	397,824
Total liabilities	**407,709**	358,930
Gross loans and advances to customers	**164,469**	155,841
Due to banks	**9,880**	7,666
Deposits and balances from customers	**363,658**	327,483
Total equity	**37,952**	38,894

* In accordance with the principles of merger accounting, 2017 figures have been restated due to the acquisition of DBS Vickers (Hong Kong) Limited's retail brokerage business.

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INFORMATION (CONTINUED)

3 Directors

The directors, including Executive Director (“ED”), non-executive directors (“NED”) and independent non-executive directors (“INED”) of the Bank during the year and up to the date of this report are:

Seah Lim Huat, Peter (NED) – Chairman	
Piyush Gupta (NED) – Vice Chairman	
J. E. Sebastian Paredes Muirragui (ED) – Chief Executive	
Dominic Chiu Fai Ho (INED)	
Kwok Kwok Chuen (INED)	
Yip Dicky Peter (INED)	
Nancy Sau Ling Tse (INED)	
Ng Chee Siong, Robert (INED)	(resigned on 29 June 2018)
Liu Chee Ming (INED)	(appointed on 29 June 2018)

In accordance with the articles of association of the Bank, Mr. Seah Lim Huat, Peter, Mr. Piyush Gupta, Mr. J. E. Sebastian Paredes Muirragui, Mr. Dominic Chiu Fai Ho, Mr. Kwok Kwok Chuen, Mr. Yip Dicky Peter and Mr. Liu Chee Ming will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.