

星展銀行（香港）有限公司
DBS BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

Annual Report 2021

DBS Bank (Hong Kong) Limited and its Subsidiaries

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DBS Bank (Hong Kong) Limited and its Subsidiaries

REPORT OF THE DIRECTORS

The directors of DBS Bank (Hong Kong) Limited (the “Bank”) submit their report together with the audited financial statements of the Bank and its subsidiaries (together the “Group”) for the year ended 31 December 2021.

Principal activities

The principal activity of the Bank is the provision of banking and related financial services. The principal activity of the main operating subsidiary is shown in Note 21 of the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2021 are set out in the consolidated income statement on page 6.

During the year, interim dividend totalling HK\$2,500 million (2020: HK\$2,000 million) was declared, of which HK\$1,000 million was paid to the holder of ordinary shares in 2021 and HK\$1,500 million was paid to the holder of ordinary shares in January 2022. During the year, preferential dividend of HK\$55 million (2020: HK\$55 million) was paid to holder of Class A preference shares.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

Share capital

Details of the movements in the share capital during the year are set out in Note 29 to the financial statements.

No debentures were issued by the Bank during the year.

Donations

Donations made by the Group during the year amounted to HK\$757,340 (2020: HK\$10,329,281).

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)

(resigned on 17 January 2021)

Nancy Sau Ling Tse (INED)

Liu Chee Ming (INED)

Ho Hing Yuen, David (INED)

In accordance with the articles of association of the Bank, Ms. Nancy Sau Ling Tse and Mr. Ho Hing Yuen, David will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors (continued)

During the year and up to the date of this report, Mr. J. E. Sebastian Paredes Muirragui is also a director of the Bank's subsidiaries. Other directors of the Bank's subsidiaries during the year and up to the date of this report include Mr. Nimish Anil Bhanulal Panchmatia, Mr. Peter Tze-chung Tung, Mr. Chan Chi Yung, Mr. Cheung Kin Sang, Mr. Ajay Surendra Mathur and Mr. Alfian Michael Sharifuddin. Mr. Ajay Surendra Mathur and Mr. Nimish Anil Bhanulal Panchmatia ceased to be directors of the Bank's subsidiaries on 16 June 2021 and 1 November 2021 respectively.

Directors' material interests in significant transactions, arrangements and contracts

No transactions, arrangements and contracts of significance in relation to the Bank's business, to which the Bank or any of its subsidiaries or its holding companies or any subsidiaries of its holding companies was a party and in which a director of the Bank or the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interest in shares

As at the end of the year or at any time during the year, the DBSH Share Plan (the "Share Plan") was the only arrangement that enabled a director of the Bank to acquire benefits by means of the acquisition of shares of DBS Group Holdings Ltd. ("DBSH"), or to be awarded shares of DBSH (or their equivalent cash value).

The Share Plan is granted to DBSH Group executives as determined by the Compensation and Management Development Committee ("CMDC") of DBSH appointed to administer the Share Plan from time to time. Participants are awarded shares of DBSH, their equivalent cash value or a combination of both.

Awards consist of the main award and the retention award (being 20% of the main award). The vesting of the main award is staggered between two to four years after grant, i.e. 33% of the shares comprised in the main award will vest two years after grant; another 33% will vest in the third year; and the remainder 34% plus the retention award will vest four years after grant. The fair value of the shares awarded is computed based on the market price of the ordinary shares at the time of the award.

During the year, the following directors were eligible to receive awards under the Share Plan as set out below:

- 1) A total of 18,211 share awards were granted to Mr. Seah Lim Huat, Peter and 18,211 share awards were vested in him;
- 2) A total of 208,993 share awards were granted to Mr. Piyush Gupta and 290,839 share awards were vested in him;
- 3) A total of 78,608 share awards were granted to Mr. J. E. Sebastian Paredes Muirragui and 71,870 share awards were vested in him.

Apart from the above, at no time during the year was the Bank or any of its subsidiaries or its holding companies or any subsidiaries of its holding companies a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporates.

Permitted indemnity provisions

The articles of association of the Bank provide that every director of the Bank shall be entitled to be indemnified out of the assets of the Bank against all liabilities incurred by him/her as a director for the benefit of the Bank or in defending any proceedings in which judgement is given in his/her favour, or in which he/she is acquitted or in connection with relief granted to him/her by the court.

All directors of the Bank and its associated companies are covered by the Directors and Officers Liability Insurance Policy taken out by DBSH.

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Bank was entered into or existed during the year.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Seah Lim Huat, Peter

Chairman

Hong Kong, 8 February 2022

DBS Bank (Hong Kong) Limited and its Subsidiaries

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DBS BANK (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 6 to 55, which comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors of the Bank are responsible for the other information. The other information obtained at the date of this auditor's report is the information included in the report of the directors and corporate governance report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 February 2022

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED INCOME STATEMENT

In HK\$ millions	Note	Year ended 31 December	
		2021	2020
Interest income		6,745	9,632
Interest expense		(569)	(2,065)
Net interest income	4	6,176	7,567
Net fee and commission income	5	3,677	3,034
Net trading income	6	1,087	879
Net income from investment securities	7	37	147
Other income	8	130	72
Total income		11,107	11,699
Total expenses	9	(5,257)	(5,174)
Profit before allowances for credit and other losses		5,850	6,525
Allowances for credit and other losses	10	(180)	(1,380)
Profit before income tax		5,670	5,145
Income tax expense	12	(920)	(820)
Profit attributable to shareholders		4,750	4,325

The notes on pages 11 to 55 form part of these consolidated financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In HK\$ millions	Year ended 31 December	
	2021	2020
Profit attributable to shareholders	4,750	4,325
Other comprehensive income:		
Items that may be reclassified subsequently to income statement:		
Debt instruments classified at fair value through other comprehensive income and others		
– Net valuation taken to equity	(284)	279
– Transferred to income statement	(17)	(111)
– Deferred income tax credited/(debited) to equity	50	(29)
Cash flow hedge		
– Net valuation taken to equity	(526)	572
– Transferred to income statement	(368)	(198)
– Deferred income tax credited/(debited) to equity	148	(62)
Items that will not be reclassified to income statement:		
Equity instruments classified at fair value through other comprehensive income		
– Net valuation taken to equity	34	62
Other comprehensive income attributable to shareholders, net of tax	(963)	513
Total comprehensive income attributable to shareholders	3,787	4,838

The notes on pages 11 to 55 form part of these consolidated financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In HK\$ millions	Note	As at 31 December 2021	2020
Assets			
Cash and balances with central banks	15	5,547	27,465
Government securities and treasury bills	16	38,556	32,715
Due from banks	17	143,928	207,057
Derivatives	32	1,388	1,627
Bank and corporate securities	18	11,132	11,240
Loans and advances to customers	19	238,950	194,052
Other assets	20	4,075	5,505
Properties and other fixed assets	23	4,064	4,330
Goodwill	22	168	168
Total assets		447,808	484,159
Liabilities			
Due to banks		7,927	15,806
Deposits and balances from customers	24	373,933	404,801
Derivatives	32	1,754	1,625
Certificates of deposit issued	25	–	2,215
Other liabilities	26	16,941	13,716
Subordinated liability	28	4,211	4,186
Total liabilities		404,766	442,349
Equity			
Share capital	29(a)	8,995	8,995
Reserves	29(b)	34,047	32,815
Total equity		43,042	41,810
Total liabilities and equity		447,808	484,159

The notes on pages 11 to 55 form part of these consolidated financial statements.

Nancy Sau Ling Tse
Director

J.E. Sebastian Paredes Muirragui
Director

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In HK\$ millions	Share capital	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2020	8,995	2,749	27,283	39,027
Total comprehensive income (Note)	–	513	4,325	4,838
Dividend	–	–	(2,055)	(2,055)
Balance as at 31 December 2020	8,995	3,262	29,553	41,810
Balance as at 1 January 2021	8,995	3,262	29,553	41,810
Total comprehensive income	–	(963)	4,750	3,787
Dividend	–	–	(2,555)	(2,555)
Balance as at 31 December 2021	8,995	2,299	31,748	43,042

Note: Included valuation gains of HK\$129 million resulting from reclassification of bank securities amounting to HK\$5,186 million from amortised cost to fair value through other comprehensive income ("FVOCI") due to change of business model for the purpose of enhancing liquidity management.

The notes on pages 11 to 55 form part of these consolidated financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

In HK\$ millions	Note	Year ended 31 December 2021	2020
Cash flows from operating activities			
Profit before income tax		5,670	5,145
Adjustments for non-cash items:			
Gain on disposal of a property		(64)	–
Allowances for credit and other losses		180	1,380
Write-off of properties and other fixed assets		4	14
Depreciation and amortisation		561	592
Advances and other assets written off		(494)	(495)
Recoveries of advances and other assets written off		58	64
Interest expense for subordinated liability		76	100
Interest expense on lease liabilities	31(a)	25	26
Profit before changes in operating assets and liabilities		6,016	6,826
(Decrease)/increase in:			
Due to banks		(7,879)	9,996
Deposits and balances from customers		(30,868)	30,701
Other liabilities and derivatives		377	(218)
Certificates of deposit issued		(2,215)	(4,143)
Decrease/(increase) in:			
Due from banks		58,340	56,790
Government securities and treasury bills		(3,375)	(3,231)
Loans and advances to customers		(44,741)	(39,770)
Bank and corporate securities		(10)	(1,485)
Other assets and derivatives		1,845	105
Net cash (used in)/generated from operating activities before income tax		(22,510)	55,571
Hong Kong profits tax paid		–	(2,274)
Overseas tax paid		(1)	(3)
Net cash (used in)/generated from operating activities		(22,511)	53,294
Cash flows from investing activities			
Purchase of fixed assets		(268)	(270)
Proceeds from disposal of properties and other fixed assets		87	3
Net cash used in investing activities		(181)	(267)
Cash flows from financing activities			
Principal element of lease payment		(270)	(297)
Interest element of lease payment		(25)	(26)
Dividend paid		(1,055)	(2,055)
Interest paid for subordinated liability		(75)	(104)
Net cash used in financing activities		(1,425)	(2,482)
Exchange differences		25	(17)
Net change in cash and cash equivalents		(24,092)	50,528
Cash and cash equivalents as at 1 January		130,594	80,066
Cash and cash equivalents as at 31 December	31(b)	106,502	130,594

The notes on pages 11 to 55 form part of these consolidated financial statements.

DBS Bank (Hong Kong) Limited and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 GENERAL INFORMATION

The principal activities of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together the "Group") are the provision of banking and related financial services. The Bank is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 11th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The immediate holding company is DBS Diamond Holdings Ltd., which was incorporated in Bermuda. The ultimate holding company is DBS Group Holdings Ltd ("DBSH" or "DBS Group") which is listed, incorporated and domiciled in the Republic of Singapore. The address of its registered office is 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982.

The consolidated financial statements were approved for issue by the Board of Directors on 8 February 2022.

For regulatory reporting purposes, the Bank computes key regulatory ratios on a combined basis including the Bank and its overseas branch that is different from the basis of consolidation for accounting purposes. The basis is set out in the unaudited Regulatory Disclosure Statements. The disclosures of regulatory capital, liquidity and other disclosures are available in the section of Regulatory Disclosures on our website www.dbs.com/hongkong/investor/financial-results.page.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance Cap 622.

The consolidated financial statements are presented in Hong Kong dollars and rounded to the nearest million, 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) Adoption of new and revised accounting standards

On 1 January 2021, the Group has adopted the following new or revised HKFRSs that are issued by HKICPA and relevant for the Group.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4, HKFRS 16, Interest Rate Benchmark Reform – Phase 2

On 1 January 2021, the Group adopted 'Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4, HKFRS 16: Interest Rate Benchmark Reform – Phase 2'. These amendments represent the second phase of HKFRS amendments ('Phase 2' amendments), which were issued due to global reform of interest rate benchmarks, such as Interbank Offered Rates (IBORs), including replacing them with Alternative Reference Rates (ARRs). In accordance with the transitional provisions, the amendments have been adopted retrospectively. There is no material impact to the Group's financial statements.

Further information is included in Note 32.

The other amendments and interpretations effective from 1 January 2021 do not have a significant impact on the Group's financial statements.

New HKFRS and Interpretations effective for future periods

The amendments and interpretations effective for future periods do not have a significant impact on the Group's financial statements.

General Accounting Policies

(c) Group accounting

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date control is transferred to the Group to the date control ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investment cost at Bank level

Investments in subsidiaries are stated at cost less accumulated impairment losses in the Bank's statement of financial position. On disposal of investments in subsidiaries and joint venture, the difference between the net proceeds and the carrying amounts of the investments is taken to the income statement.

(d) Foreign currency treatment**(i) Functional and presentation currency**

Items in the financial statements are measured using the functional currency of each entity in the Group, being the currency of the primary economic environment in which the entity operates. The Group's financial statements are presented in Hong Kong dollar, which is the functional currency of the Bank.

(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 Hong Kong dollars at the exchange rate as at the end of the reporting period. Foreign exchange differences arising from this translation are recognised in the income statement as trading income.

Non-monetary assets and liabilities measured at cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined, which is generally the end of the reporting period.

Unrealised foreign exchange differences arising from non-monetary financial assets and liabilities classified as fair value through profit or loss ("FVPL") are recognised in the income statement as trading income. Non-monetary financial assets that are classified as FVOCI relates mainly to FVOCI equities. Refer to section 2(f) for the accounting treatment.

(iii) Subsidiaries and branches

The results and financial positions of subsidiaries and branches whose functional currency is not Hong Kong dollars ("foreign operations") are translated into Hong Kong dollars in the following manner:

- Assets and liabilities are translated at the exchange rates as at the end of the reporting period;
- Income and expenses in the income statement are translated at exchange rates prevailing at each month-end, approximating the exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognised in other comprehensive income and accumulated under capital reserves in equity. When a foreign operation is disposed of, or when it is liquidated, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

Income Statement**(e) Income recognition****(i) Interest income and interest expense**

Interest is accrued on all interest-bearing financial assets and financial liabilities, regardless of their classification and measurement, except for limited transactions measured at FVPL where the economics is better reflected in trading income.

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

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of products and services provided to its customers.

Fee and commission income are recognised when the Group has satisfied its performance obligation in providing the promised products and services to the customer, and are recognised based on contractual rates agreed with customers, net of expected waivers based on historical experience, and net of expenses directly related to it. The Group generally satisfies its performance obligation and recognises the fee and commission income on the following basis:

- Transaction-based fee and commission income is recognised on the completion of the transaction. Such fees include underwriting fees, brokerage fees, bancassurance sales commission and variable service fees, and fees related to the completion of corporate finance transactions.
- For a service that is provided over a period of time, fee and commission income is generally recognised on equal proportion basis over the period during which the related service is provided or credit risk is undertaken. This basis of recognition most appropriately reflects the nature and pattern of provision of these services to the customers over time. Fees for these services can be billed to customers in advance or periodically over time. Such fees include the income from issuance of financial guarantees and bancassurance fixed service fees.

The Group does not provide any significant credit terms to customers for the above products and services.

Directly related expenses typically include brokerage fees paid, card-related expenses and sales commissions, but do not include expenses for services delivered over a period (such as service contracts) and other expenses that are not specifically related to fee and commission income transactions.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established. This is generally the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities. Dividend income arising from financial assets classified as FVPL is recognised in "Net trading income", while those arising from FVOCI financial assets is recognised in "Net income from investment securities".

(iv) Rental income

Rental income from operating leases on properties is recognised on a straight-line basis over the lease term.

(v) Allowances for credit losses

Please refer to Note 2(h) for the accounting policy on impairment of financial assets.

Statement of financial position**(f) Financial assets****Initial recognition**

Purchases and sales of all financial assets are recognised on the date that the Group enters into the contractual arrangements with counterparties. When the Group acts as a trustee or in a fiduciary capacity for assets it does not directly control or benefit from, the assets and the corresponding income belonging to a customer are excluded from the financial statements.

Financial assets are initially recognised at fair value, which is generally the transaction price.

Classification and subsequent measurement

HKFRS 9 categorises debt-like financial assets based on the business model within which the assets are managed, and whether the assets constitute a "basic lending arrangement" where their contractual cash flows represent solely payments of principal and interest ("SPPI"). Interest is defined as consideration for the time value of money, credit risk, other basic lending risks and may include a profit margin.

The classification of the financial assets and the associated accounting treatment is as follows:

- Debt instruments are measured at amortised cost when they are in a "hold to collect" ("HTC") business model and have contractual cash flows that are SPPI in nature. The objective of a HTC business model is to collect contractual principal and interest cash flows. Sales are incidental to the objective and expected to be either insignificant or infrequent.

- Debt instruments are measured at FVOCI when they are in a "hold to collect & sell" ("HTC&S") business model and have cash flows that are SPPI in nature. Both the collection of contractual cash flows and sales are integral to achieving the objective of the HTC&S business model.

Unrealised gains or losses on FVOCI debt instruments are recorded in other comprehensive income and accumulated in FVOCI reserves. When they are sold, the accumulated fair value adjustments in FVOCI are reclassified to the income statement as "Net income from investment securities".

- Debt instruments are measured at FVPL when:

- the assets are not SPPI in nature;
- the assets are not part of a "HTC" or "HTC&S" business model; or
- the assets are designated at FVPL to eliminate or significantly reduce the measurement or recognition inconsistencies that would otherwise arise from measuring assets or liabilities on different bases.

Realised and unrealised gains or losses on FVPL financial assets, except interest income, are taken to "Net trading income" in the income statement in the period they arise.

- Subsequent changes in fair value of non-trading equity can be taken through profit or loss or comprehensive income, as elected. The Group generally elects its non-trading equity instruments to be classified as FVOCI. Other than dividend income, gains and losses on FVOCI equity instruments are recorded in other comprehensive income and accumulated in FVOCI reserves, and not reclassified to profit or loss upon derecognition.
- Derivatives (including derivatives embedded in financial liabilities but separated for accounting purposes) are also classified as held for trading unless they are designated as hedging instruments. Derivatives are classified as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives other than those designated as hedging instruments in cash flow or net investment hedges are included in "Net trading income".

Reclassification of financial assets

Reclassification of financial assets are prohibited unless the Group changes its business model for managing financial assets. In practice, this is expected to be infrequent.

Determination of fair value

The fair value of financial assets is the price that would be received if the asset is sold in an orderly transaction between market participants at the measurement date. Fair value is generally

estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Where applicable, a valuation reserve or pricing adjustment is applied to arrive at the fair value. The determination of fair value is considered a significant accounting policy for the Group and further details are disclosed in Note 30 on fair value measurements.

Offsetting

Financial assets and liabilities are presented net when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when they have been transferred together with substantially all risks and rewards of ownership.

The Group enters into certain transactions where it transfers financial assets recognised on its statement of financial position but retains either all or a portion of the risks and rewards of the transferred financial assets. In such cases, the transferred financial assets are not derecognised from the statement of financial position. They also include certain transactions where control over the financial asset is retained, for example, by a simultaneous transaction (such as options) with the same counterparty to which the asset is transferred. In such cases, the Group continues to recognise the asset to the extent of its continuing involvement which is the extent to which it is exposed to changes in the value of the transferred asset. Please refer to Note 35 for disclosures on transfers of financial assets.

(g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks, placements with and advances to banks and short-term bills and notes classified as held-for-trading and FVOCI which are readily convertible into cash and which are subject to an insignificant risk of changes in value.

(h) Impairment

Expected Credit Loss ("ECL")

ECL are recognised for all financial assets held at amortised cost, debt instruments measured at FVOCI, guarantees and undrawn credit commitments. It represents the present value of expected cash shortfalls over the residual term of a financial asset, guarantee or undrawn commitment.

At initial recognition, allowance is required for ECL resulting from possible default events that may occur within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, allowance is required for ECL resulting from possible default events over the expected life of the instrument ("lifetime ECL").

The ECL recognised follows the three-stage model: financial instruments where 12-month ECL is recognised are considered Stage 1; financial instruments which experience a significant increase in credit risk are in Stage 2; and financial instruments with objective evidence of default or credit-impaired are in Stage 3.

- **Stage 1** – Financial instruments are classified as Stage 1 at initial recognition and will remain under Stage 1 unless they experience a significant increase in credit risk or become credit-impaired. 12-month ECL is recognised for these instruments.
- **Stage 2** – Financial instruments which experience a significant increase in credit risk (SICR) subsequent to initial recognition, but are not yet credit-impaired, will migrate from Stage 1 to Stage 2. Lifetime ECL is recognised for these instruments.

Significant increase in credit risk ("SICR"): SICR is assessed by comparing the risk of default at reporting date to the risk of default at origination using a range of qualitative and quantitative factors.

For *wholesale* exposures, a financial instrument is deemed to have experienced a significant increase in credit risk when:

- the observed change in its probability of default ("PD"), as observed by downgrades in the Group's internal credit risk rating for this instrument between origination and reporting dates, is more than pre-specified thresholds; or
- it is placed on internal credit "watchlists" for closer scrutiny of developing credit issues.

For *retail* exposures, days past due is the main driver, supplemented with a PD-based criterion. In any event, all retail and wholesale exposures that are more than 30 days past due are presumed to have experienced a significant increase in credit risk, unless assessed otherwise, and are classified as Stage 2.

Instruments in Stage 2 that no longer exhibit a significant increase in credit risk will be transferred back to Stage 1.

- **Stage 3** – Financial instruments that become credit-impaired with evidence of default, i.e. non-performing assets, are transferred to Stage 3. Please refer to Note 37 for the definition of non-performing assets.

Lifetime ECL is recognised for these assets. ECL for Stage 3 assets are also known as specific allowances.

A Stage 3 exposure that is restructured can be upgraded to Stage 2 if there are reasonable grounds to conclude that the obligor is able to service future principal and interest payments in accordance with the restructured terms. Stage 3 financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of future recoveries.

Measurement of ECLs

ECL are unbiased and probability-weighted estimates of credit losses determined by evaluating a range of possible outcomes, considering past events, current conditions and assessments of future economic conditions at the reporting date. The ECL associated with a financial instrument is typically a product of the its probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") discounted using the original effective interest rate to the reporting date.

- **PD** – Point-in-time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) estimate of the likelihood of default.
- **LGD** – Estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including recoveries from collaterals.
- **EAD** – Estimate of the expected credit exposure at time of default, taking into account repayments of principal and interest as well as expected drawdowns on undrawn credit commitments and potential pay-outs on guarantees issued.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

In most instances, expected remaining maturity is the same as the remaining contractual life which represents the maximum contractual period over which the Group is exposed to the credit risk of the borrower. However, for some revolving products (e.g. credit cards), the expected remaining maturity may exceed the contractual maturity. In such instances, behavioural expected remaining life will be used.

ECL Modelling- Point-in-Time and Forward-Looking Adjustments

The Group leverages the models and parameters implemented under the Basel II Internal Ratings-Based ("IRB") framework where possible, with appropriate modifications to meet HKFRS 9 requirements.

Other relevant historical information, loss experience or proxies will be utilised for portfolios without appropriate Basel models and parameters, with a view to maximise the use of available information that is reliable and supportable.

For the *wholesale* portfolios, credit risk cycle indices ("CCIs") have been developed for the key industries and geographies. CCIs are summary measures that depict broad-based, sector-wide changes in credit risk, which are constructed by comparing the median expected default frequency of firms within each segment against a long-run average. Expected default frequency is in turn a market

based point-in-time default risk measure, driven by the market value of firms' assets, asset volatility and leverage. CCIs are then used as inputs to convert the generally more through-the-cycle PDs derived from Basel models / parameters into the point-in-time equivalents by adding the unaccounted portion of cyclical variations, as well as to incorporate forward-looking information. LGDs are determined using historical loss data, which are adjusted for both the latest and forecasted recovery experience.

The Group relies on a Monte Carlo simulation approach to consider over 100 probability-weighted forward-looking scenarios in estimating ECL. This involves simulations of alternative CCI scenarios to arrive at an unbiased ECL estimate that are meant to cover all possible good and bad scenarios based on known estimates and currently available information.

For *retail* portfolios, historical loss experience is used in conjunction with the forecast loss rates which take into account relevant macroeconomic variables, such as property-price and unemployment rates.

Expert credit judgement

The measurement of ECLs requires the application of expert credit judgement. These include:

- assignment of credit risk ratings and determination of whether exposures should be placed on credit watchlists;
- assessment of whether a significant increase in credit risk has occurred;
- selecting and calibrating the ECL models such as CCIs;
- determining the expected remaining maturity of revolving products (e.g. overdrafts and credit cards);
- determination of the forecast loss rates; and
- application of thematic overlays where potential risks may not be captured in the underlying modelled ECL. Such top-down additional modelled ECL is quantified by means of applying conditional probabilities of more severe scenarios materializing arising from emerging risk themes.

As at 31 December 2021, thematic ECL overlays were applied to account for uncertainties arising from the ongoing COVID-19 pandemic, the continuing US-China trade tensions and higher global inflation. In determining this overlay, the Group has considered a range of plausible outcomes under base and stress scenarios using a top-down approach. These assessments consider both the economic impact of COVID-19 and the various government relief measures implemented to mitigate the impact. The Group has assigned probabilities to the scenarios in-line with management's judgement of the likelihood of each scenario occurring in determining the overlay.

For 2021, the base case scenario forecasts a steady recovery in the global economy with the COVID-19 situation being largely contained. The stress case scenario is a deep recession with gradual recovery over 2023 and 2024. This includes a combination of negative GDP growth, declines in property prices and an increase in the unemployment rates.

Governance framework

The measurement of ECL is subject to a robust governance framework as described below.

- The DBS Group ECL Review Committee (Review Committee) is the overarching committee for ECL related matters and comprises senior management and representatives from functions across the Group. Significant changes to ECL models and methodologies and the application of thematic overlays are subject to the oversight and approval of the Review Committee.
- The Review Committee is supported by the DBS Group ECL Operating Committee (Operating Committee) which comprises cross functional representatives and subject matter experts. The Operating Committee recommends changes to ECL models, methodologies and thematic overlays to the Review Committee; provides oversight over system design, infrastructure and development; and establishes principles and significant policies pertaining to ECL. Group Credit Risk Models Committee oversees ECL models and credit risk models used by the Group.
- Hong Kong ECL Review Group is established and coordinates closely with DBS Group ECL Review Committee to govern and manage local ECL related matters.
- ECL models are subject to independent validation by the Risk Management Group (RMG) as well as independent reviews by internal and external auditors. The validation and assurance processes cover the review of the underlying ECL methodology including its logic and conceptual soundness.

(i) Repurchase agreements

Repurchase agreements ("Repos") are arrangements where the Group sold the securities but subject to a commitment to repurchase or redeem the securities at a pre-determined price. The securities are retained on the balance sheet as Group retains substantially all the risk and rewards of ownership and these securities are disclosed within "securities pledged or transfers of financial assets" (note 35). The consideration received is recorded as financial liabilities in either "due to banks" or "deposits and balances from customers". Short-dated repos transacted as part of Treasury Markets activities are measured at FVPL.

Reversed repurchase agreements ("Reverse repos") are arrangements where the Group purchased the securities but are subject to a commitment to resell or return the securities at a pre-determined price. The risk and rewards of ownership of the collateral are not acquired by the Group and are reflected as collateral received and recorded off-balance sheet. The consideration paid is recorded as financial assets as "cash and balances with central banks", "due from banks" or "loans and advances to customers". Short-dated reverse repos transacted as part of Treasury Markets activities are measured at FVPL.

(j) Goodwill

Goodwill arising from business combinations generally represents the excess of the acquisition cost over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed on acquisition date. Goodwill is stated at cost less impairment losses and it is tested at least annually for impairment.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units ("CGU") or group of CGUs expected to benefit from the combination's synergies.

An impairment loss is recognised when the carrying amount of a CGU, or a group of CGUs, including the goodwill, exceeds the applicable recoverable amount. The recoverable amount of a CGU or CGU group is the higher of the CGU's or CGU group's fair value less cost to sell and its value-in-use. An impairment loss on goodwill is recognised in the income statement and cannot be reversed in subsequent periods.

(k) Properties and other fixed assets

Owned properties and other fixed assets

Properties (including investment properties) and other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated using the straight-line method to write down the costs of the assets to their estimated residual values over the estimated useful lives of the assets. No depreciation is recognised when the residual value is higher than the carrying amount.

Generally, the useful lives are as follows:

Freehold land	Not depreciated
Land	Over the remaining lease period
Buildings	Over the remaining lease period of the land on which it is situated or 50 years, whichever is shorter
Leasehold improvements	Over the lease term of the leased properties or 5 years, whichever is shorter
Furniture, fixtures and equipment	3 – 8 years

Leased properties and other fixed assets

Lease liabilities are initially measured at the present value of lease payments to be made over the lease term at the lease commencement date. The associated right-of-use assets are measured at the amount equal to the lease liability.

Lease liabilities are subsequently measured at amortised cost using the effective interest method. The right-of-use assets are depreciated over the lease term on a straight line basis.

Extension options and termination options are included in the assessment of the lease term if the options are reasonably certain to be exercised or not exercised accordingly. If the Group changes its initial assessment, adjustments are made to the carrying amounts of the lease liabilities and right-of-use assets prospectively.

The recognition exceptions for short-term leases and leases of low-value assets are applied.

Please refer to Note 23 for the details of owned and leased properties and other fixed assets and their movements during the year.

(l) Financial liabilities

Initial recognition, classification and subsequent measurement

Financial liabilities are initially recognised at fair value. The Group generally classifies and measures its financial liabilities in accordance with the purpose for which the financial liabilities are incurred and managed. Accordingly:

- Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are incurred for the purpose of repurchasing in the near term (held-for-trading), and this may include debt securities issued and short positions in securities for the purpose of ongoing market making, or trading. Financial liabilities at the fair value through profit or loss can also be designated by management on initial recognition (designated at fair value through profit or loss) if doing so eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise, or if the financial liability contains an embedded derivative that would otherwise need to be separately recorded, or if a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis.

Realised or unrealised gains or losses on financial liabilities held for trading and financial liabilities designated at fair value through profit or loss, except interest expense, are taken to "Net trading income" in the income statement in the period they arise.

The changes to the fair value of financial liabilities designated under the fair value option that are attributable to a reporting entity's own credit risk are taken to retained earnings through other comprehensive income. These amounts are not transferred to the income statement even when realised.

- Derivative liabilities are treated consistently with derivative assets. Please refer to Note 2(f) for the accounting policy on derivatives.
- Other financial liabilities are carried at amortised cost using the effective interest method. These comprise predominantly the

Group's deposit portfolio under "Deposits and balances from customers" and "Due to banks" and "Other liabilities".

Please refer to Note 14 for further details on the types of financial liabilities classified and measured as above.

Determination of fair value

The fair value of financial liabilities is the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Please refer also to Note 30 for further fair value measurement disclosures.

Derecognition

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

(m) Loan commitments, letters of credit and financial guarantees

Loan Commitments

Loan commitments are not recognised on the balance sheet and are disclosed in Note 33. Upon a loan draw-down, the amount of the loan is generally recognised as "Loans and advances to customers" on the Group's balance sheet.

Letters of Credit

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 the balance sheet upon acceptance of the underlying documents.

Financial Guarantees

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee is given. Financial guarantees are subsequently measured at the higher of:

- The amount of the ECL (Note 2 (h)); and
- The unamortised portion of the fees that were received on initial recognition. The fee is recognised over time as income in accordance with the principles in Note 2(e).

Off-balance sheet credit exposures are managed for credit risk in the same manner as financial assets.

(n) Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(o) Share capital

Ordinary shares, and preference shares which do not result in the Group having a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the Group, are classified as equity. Incremental external costs directly attributable to the issuance of these instruments are accounted for as a deduction from equity.

Interim dividends are recorded during the financial year in which they are declared payable. Final dividends are recorded during the financial year in which the dividends are approved by the shareholders at the Annual General Meeting.

Other Specific Topics

(p) Hedging and hedge accounting

As part of the overall risk management of the Group, derivatives and other instruments are used to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions.

Where hedge accounting is not applied, the derivatives are treated in the same way as derivatives held for trading purposes, i.e. realised and unrealised gains and losses are recognised in "Net trading income". The Group applies hedge accounting for economic hedge relationships that meet the hedge accounting criteria. To qualify for hedge accounting, at the inception of each hedging relationship, the Group designates and documents the relationship between the hedging instrument and the hedged item; the risk management objective for undertaking the hedge transaction; and the methods used to assess the effectiveness of the hedge. At inception and on an on-going basis, the Group also assesses and measures the effectiveness of the hedging relationship between the hedging instrument and the hedged item.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between hedging instrument and the hedged item. The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges or cash flow hedges as described below.

Fair value hedge

For a qualifying fair value hedge, the changes in the fair value of the hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged item attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over its remaining maturity.

However, where the hedged item is an equity instrument classified as FVOCI, changes in the fair value of the hedging instrument and the hedged item are both recorded in other comprehensive income and accumulated in FVOCI revaluation reserves. The amounts recorded in FVOCI revaluation reserves are not subsequently reclassified to the income statement.

Cash flow hedge

The effective portion of changes in the fair value of a derivative designated and qualifying as a cash flow hedge is recognised in other comprehensive income and accumulated under the cash flow hedge reserve in equity. This amount is reclassified to the income statements in the periods when the hedged forecast cash flows affect the income statement. The ineffective portion of the gain or loss is recognised immediately in the income statement under "Net trading income".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve remains until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in the cash flow hedge reserve is reclassified from equity to the income statement.

Economic hedges which do not qualify for hedge accounting

Some derivatives may be transacted as economic hedges as part of the Group's risk management but do not qualify for hedge accounting under HKFRS 9. This includes swaps and other derivatives (e.g. futures and options) that the Group transacts to manage interest rate, foreign exchange and other risks. Such derivatives are treated in the same way as derivative held for trading purposes, i.e. realised and unrealised gains and losses are recognised in "Net trading income". In some cases, the hedged exposures are designated at fair value through profit or loss, thereby achieving some measure of offset in the income statement.

Please refer to Note 32 for disclosures on hedging derivatives.

(q) 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 publicly or privately administered funds on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations.

Employee entitlement to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual unutilised leave as a result of services rendered by employees up to the end of the reporting period.

(r) Share-based compensation

Employee benefits also include share-based compensation, namely, the DBSH Share Plan, the DBSH Employee Share Plan and the DBSH Employee Share Purchase Plan (“the Plans”) run by DBSH, the ultimate holding company of the Bank. The details of the Plans are described in Note 40.

These share-based compensation expenses, which are measured at their fair values at grant date, are cash-settled with DBSH, amortised and recognised in the income statement over the relevant vesting periods. Non-market vesting conditions are taken into account in determining the number of shares to be granted or number of options that are expected to become exercisable on vesting dates. The impact of subsequent revision of original estimates, if any, is recognised in the income statement.

(s) 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. The Group considers uncertain tax positions generally at the level of the total tax liability to each tax authority for each period. The liability is determined based on the total amount of current tax expected to be paid, taking into account all tax uncertainties, using either an expected value approach or a single best estimate of the most likely outcome.

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. This applies generally when they arise from the same tax reporting group and relate to the same tax authority.

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.

Deferred tax related to fair value re-measurement of FVOCI investments, which are recognised outside the income statement, is also recognised outside the income statement i.e. in other comprehensive income and accumulated in the FVOCI reserve.

3 CRITICAL ACCOUNTING ESTIMATES

The Group’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 Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Group’s critical accounting estimates that involve management’s valuation judgement.

(a) Impairment of financial assets

It is the Group’s policy to recognise, through charges against profit, allowances in respect of estimated and inherent credit losses in its portfolio as described in Note 2(h).

ECLs are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessments of future economic conditions, which will necessarily involve the use of judgement.

The COVID-19 pandemic, related measures to control the spread of the virus and governmental support to mitigate the impact of the pandemic had a profound economic impact on the Group’s key markets. A significant degree of judgement is required in estimating the ECLs in the midst of a rapidly evolving COVID-19 environment. Refer to Note 2(h) for more details.

In estimating specific allowances under HKFRS 9, the Group assesses the gap between borrowers’ obligations to the Group and their repayment ability. The assessment takes into account various factors, including the economic or business outlook, the future profitability of the borrowers and the liquidation value of collateral. Such assessment requires considerable judgement.

The general allowances under HKFRS 9 are determined after taking into account historical data and management’s assessment of the current economic and credit environment, country and portfolio risks, as well as industry practices.

(b) Fair value of financial instruments

The majority of the Group’s financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced or verified market parameters.

The fair value of financial instruments without an observable market price in a liquid market may be determined using valuation models. The choice of model requires significant judgement for complex products.

Policies and procedures have been established to facilitate the exercise of judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors used in the valuation process.

Please refer to Note 30 for details on valuation process and the fair value hierarchy of the Group's financial instruments measured at fair value.

(c) Goodwill impairment

The Group performs an impairment review to ensure that the carrying amount of the CGU to which goodwill is allocated, does not exceed the recoverable amount of the CGU. Note 22 provides details of goodwill as of the reporting date.

The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercises judgement in estimating the future cash flows, growth rate and discount rate.

(d) Income taxes

Judgement is involved in determining the group-wide provision for income taxes. The Group recognises liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Note 27 provides details of the Group's deferred tax assets / liabilities.

4 NET INTEREST INCOME

In HK\$ millions	2021	2020
Cash and balances with central banks and Due from banks	1,396	3,938
Customer non-trade loans	4,443	4,402
Trade assets	413	632
Securities and others	493	660
Total interest income	6,745	9,632
Deposits and balances from customers	(443)	(1,761)
Interest expense on subordinated liability	(76)	(100)
Other interest expense	(50)	(204)
Total interest expense	(569)	(2,065)
Net interest income	6,176	7,567
Comprising:		
Interest income from financial assets at FVPL	46	135
Interest income from financial assets at FVOCI	154	283
Interest income from financial assets at amortised cost	6,545	9,214
Interest expense from financial liabilities at FVPL	(3)	(73)
Interest expense from financial liabilities not at FVPL ^(a)	(566)	(1,992)
Total	6,176	7,567

(a) Includes interest expense on lease liabilities of HK\$25 million (2020: HK\$26 million).

5 NET FEE AND COMMISSION INCOME

In HK\$ millions	2021	2020
Fee and commission income	4,281	3,635
Less: Fee and commission expense	(604)	(601)
Net fee and commission income	3,677	3,034
Comprising:		
– Wealth management	2,133	1,693
– Transaction services ^(a)	936	825
– Loan related	245	181
– Cards	342	308
– Brokerage	21	27
Net fee and commission income	3,677	3,034

(a) Includes trade & remittances, guarantees, and deposit-related fees.

Of which:

Fee and commission income arising from:		
– Financial assets or financial liabilities not at FVPL	1,158	1,048
– Trust or other fiduciary activities	79	57

Fee and commission expense arising from:		
– Financial assets or financial liabilities not at FVPL	415	424

6 NET TRADING INCOME

In HK\$ millions	2021	2020
Net trading income ^(a)		
– Foreign exchange	1,050	853
– Interest rates, equities and others	14	53
	1,064	906
Net gain/(loss) from financial instruments designated at fair value	23	(27)
Total	1,087	879

(a) Includes income from assets that are mandatorily classified at FVPL.

7 NET INCOME FROM INVESTMENT SECURITIES

In HK\$ millions	2021	2020
Debt securities at:		
– FVOCI	16	111
– Amortised cost	–	23
Equity securities at FVOCI	21	13
Total	37	147
Of which dividend income from:		
– Listed investments	–	–
– Unlisted investments	21	13
Total	21	13

8 OTHER INCOME

In HK\$ millions	2021	2020
Gain on disposal of a property	64	–
Rental income	21	27
Others	45	45
Total	130	72

9 TOTAL EXPENSES

In HK\$ millions	2021	2020
Employee benefits		
– Salaries and other short term employee benefits	3,265	3,143
– Pensions	158	185
– Share-based compensation	70	67
Premises and equipment expenses excluding depreciation		
– Expenses relating to short-term leases and low-value assets	3	16
– Others	201	203
Depreciation expenses		
– Owned properties and other fixed assets	290	295
– Leased properties and other fixed assets	271	297
Auditor's remuneration	10	10
Computerisation expenses	331	381
Other operating expenses	658	577
Total	5,257	5,174

10 ALLOWANCES FOR CREDIT AND OTHER LOSSES

In HK\$ millions	2021	2020
Loans and advances to customers	259	1,282
Off-balance sheet credit exposures and others	(79)	98
Total	180	1,380

The table below shows the movements in specific and general allowances during the year.

In HK\$ millions	Balance at 1 January	Charge to income statement	Recoveries	Write-off	Exchange and other movements	Balance at 31 December
2021						
Specific allowances						
Loans and advances to customers (Note 19)	1,341	394	58	(474)	36	1,355
Others ^(a)	30	(2)	–	(20)	–	8
Total specific allowances	1,371	392	58	(494)	36	1,363
General allowances						
Loans and advances to customers (Note 19)	2,231	(135)	–	–	–	2,096
Others ^(a)	213	(77)	–	–	–	136
Total general allowances	2,444	(212)	–	–	–	2,232
Total allowances for credit and other losses	3,815	180	58	(494)	36	3,595
2020						
Specific allowances						
Loans and advances to customers (Note 19)	1,308	446	64	(495)	18	1,341
Others ^(a)	21	2	–	–	7	30
Total specific allowances	1,329	448	64	(495)	25	1,371
General allowances						
Loans and advances to customers (Note 19)	1,395	836	–	–	–	2,231
Others ^(a)	117	96	–	–	–	213
Total general allowances	1,512	932	–	–	–	2,444
Total allowances for credit and other losses	2,841	1,380	64	(495)	25	3,815

(a) Includes allowances for off-balance sheet exposures, other assets, bank and corporate securities and due from banks.

The following table outlines the changes in ECL allowances under HKFRS 9 in 2021 and 2020 which are attributed to the following:

- Transfers between stages.
- Net portfolio changes, which are determined on an obligor basis i.e. originations with new obligors net of derecognitions from former obligors.
- Remeasurements, which include the impact of changes in model inputs or assumptions, partial repayments, additional drawdowns on existing facilities and changes in ECL following a transfer between stages.

HK\$ millions	General allowances (Non-impaired)		Specific allowances (Impaired)	Total
	Stage 1	Stage 2	Stage 3	
2021				
Balance at 1 January				
Allowance for credit and other losses	1,420	1,024	1,371	3,815
Transfer to/(from)	52	(126)	74	–
– Stage 1	(66)	57	9	–
– Stage 2	118	(183)	65	–
– Stage 3	–	–	–	–
Net portfolio changes	55	(35)	–	20
Remeasurements	(379)	221	318	160
Net write-offs ^(a)	–	–	(436)	(436)
Exchange and other movements	–	–	36	36
Balance at 31 December	1,148	1,084	1,363	3,595
Charge in the income statement	(272)	60	392	180
2020				
Balance at 1 January				
Allowance for credit and other losses	519	993	1,329	2,841
Transfer to/(from)	126	(196)	70	–
– Stage 1	(23)	14	9	–
– Stage 2	149	(210)	61	–
– Stage 3	–	–	–	–
Net portfolio changes	142	(11)	–	131
Remeasurements	633	238	378	1,249
Net write-offs ^(a)	–	–	(431)	(431)
Exchange and other movements	–	–	25	25
Balance at 31 December	1,420	1,024	1,371	3,815
Charge in the income statement	901	31	448	1,380

(a) Write-offs are net of recoveries.

The following table provides additional information on the financial instruments that are subject to loss allowances as at 31 December 2021 and 2020. FVPL assets and FVOCI equity instruments are not subject to loss allowances and therefore not reflected in the table.

In HK\$ millions	Gross carrying value ^(b)				ECL allowances balances			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2021								
Assets								
Cash and balances with central banks	5,547	–	–	5,547	–	–	–	–
Government securities and treasury bills ^(a)	34,232	–	–	34,232	1	–	–	1
Due from banks	143,929	–	–	143,929	1	–	–	1
Bank and corporate securities	10,079	–	–	10,079	1	–	–	1
Loans and advances to customers								
– Retail	79,832	591	273	80,696	546	246	89	881
– Wholesale	143,485	15,806	2,414	161,705	493	811	1,266	2,570
Other assets	1,266	16	7	1,289	2	–	7	9
Liabilities								
ECL on guarantees and other off-balance sheet exposures					104	27	1	132
Total					1,148	1,084	1,363	3,595
2020								
Assets								
Cash and balances with central banks	27,465	–	–	27,465	–	–	–	–
Government securities and treasury bills	30,567	–	–	30,567	–	–	–	–
Due from banks	207,058	–	–	207,058	1	–	–	1
Bank and corporate securities ^(a)	10,985	–	–	10,985	2	–	–	2
Loans and advances to customers								
– Retail	65,176	586	438	66,200	560	361	109	1,030
– Wholesale	108,899	19,967	2,558	131,424	697	613	1,232	2,542
Other assets	1,456	66	28	1,550	2	2	28	32
Liabilities								
ECL on guarantees and other off-balance sheet exposures					158	48	2	208
Total					1,420	1,024	1,371	3,815

(a) Includes loss allowances of HK\$1 million for debt securities that are classified at FVOCI (2020: HK\$1 million)

(b) Balances exclude off-balance sheet exposures

Sensitivity of ECL calculation to macroeconomic variables

The Group assessed ECL sensitivity for the wholesale and retail portfolios to changes in the allocation of exposures between Stages 1 and 2. ECL is estimated to reduce by HK\$733 million (2020: HK\$698 million) should all the exposures in Stage 2 return to Stage 1 and were assigned a lower 12-month ECL instead of lifetime ECL. The impact also reflects the higher PDs ascribed to Stage 2 exposures in addition to the recognition of lifetime instead of 12-month ECL.

As ECL estimation relies on multiple variables, no single analysis can fully demonstrate the sensitivity of the ECL to changes in macroeconomic variables.

Relief measures offered to customers

In response to the impact of COVID-19, various forms of relief measures, such as Pre-approved Principal Payment Holiday Scheme launched by HKMA together with the Banking Sector SME Lending Coordination Mechanism, had been offered to eligible individual and corporate customers. Payment deferrals were considered to be non-substantial modifications and accounted for as a continuation of the existing loan agreements. No material modification gains or losses were recognised.

In line with regulatory guidelines, customers' utilisation of relief measures does not automatically result in a significant increase in credit risk and a transfer to Stage 2. The assessment of customer's risk of default continues to be performed comprehensively, taking into account the customer's ability to make payments based on the rescheduled payments and their creditworthiness in the long term.

11 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The aggregate amounts of emoluments paid or payable to directors of the Bank during the year are as follows:

In HK\$ millions	2021	2020
Fees ^(a)	4	5
Salaries, housing and other allowances and benefits ^(b)	28	26
Contributions paid under a retirement benefit scheme	1	1
	33	32

(a) The directors' fees, if any, are payable in 2022 to eligible persons who acted as directors of the Bank during the year ended 31 December 2021. Such fees are subject to the approval of the shareholders of the Bank.

(b) The amount included cash bonus accrued during the year, to be paid in the following year. Such cash bonus is subject to the approval of DBSH's Board of Directors. The amount also included the estimated money value of other perquisites.

During the year, no termination benefits were paid by the Bank to any of the Bank's directors.

During the year, the Bank did not incur any payment to third parties for making available directors' services.

(b) Directors' material interests in transactions, arrangements and contracts

No transaction, arrangement and contracts of significance in relation to the Bank's business, to which the Bank or any of its subsidiaries or its holding companies or any subsidiary of its holding companies was a party and in which a director of the Bank or the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

12 INCOME TAX EXPENSE

(a) Income tax expense in the consolidated income statement is comprised of:

In HK\$ millions	2021	2020
Hong Kong Profits Tax		
– Current year	893	1,006
– Over provision in prior years	(17)	(38)
Overseas tax		
– Current year	–	1
Current income tax	876	969
Deferred income tax (Note 27(b))		
– Current year	44	(163)
– Over provision in prior years	–	14
	44	(149)
Total	920	820

Hong Kong profits tax has been provided at 16.5% (2020: 16.5%) on the estimated assessable profits for the year. Taxation for overseas subsidiaries and branch are charged at the appropriate current rates of taxation ruling in the countries in which they operate.

(b) The deferred income tax debited/(credited) to the consolidated income statement comprises the following temporary differences::

In HK\$ millions	2021	2020
Accelerated depreciation allowances	(1)	(6)
Impairment allowances	35	(155)
Share-based compensation	(2)	(2)
Right-of-use assets and lease liabilities	–	14
Accrued expenses	14	–
Tax loss	(2)	–
	44	(149)

(c) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 16.5% (2020: 16.5%) is as follows:

In HK\$ millions	2021	2020
Profit before income tax	5,670	5,145
Tax calculated at tax rate of 16.5% (2020: 16.5%)	936	849
Effect of different tax rates in other countries	–	(1)
Income not subject to tax	(14)	(37)
Expenses not deductible for tax purposes	15	33
Over provision in prior years	(17)	(24)
Income tax expense	920	820

13 DIVIDEND

(a) Ordinary shares

	2021		2020	
	Per share HK\$	HK\$ millions	Per share HK\$	HK\$ millions
First interim dividend	0.143	1,000	0.286	2,000
Second interim dividend	0.214	1,500	–	–
Final dividend	–	–	–	–
	0.357	2,500	0.286	2,000

(b) Preference shares

Preferential dividend of HK\$55 million (2020: HK\$55 million) was paid to holder of Class A preference shares during the year.

14 CLASSIFICATION OF FINANCIAL INSTRUMENTS

In HK\$ millions	Mandatorily at FVPL ^(c)	FVPL designated	FVOCI-Debt	FVOCI-Equity	Amortised cost	Hedging derivatives	Total
2021							
Assets							
Cash and balances with central banks	–	–	–	–	5,547	–	5,547
Government securities and treasury bills	4,324	–	25,188	–	9,044	–	38,556
Due from banks	219	–	–	–	143,709	–	143,928
Derivatives	897	–	–	–	–	491	1,388
Bank and corporate securities	764	–	5,880	290	4,198	–	11,132
Loans and advances to customers	–	–	–	–	238,950	–	238,950
Other financial assets	–	–	–	–	3,682	–	3,682
Total financial assets	6,204	–	31,068	290	405,130	491	443,183
Non-financial assets ^(a)							4,625
Total assets							447,808
Liabilities							
Due to banks	1,323	–	–	–	6,604	–	7,927
Deposits and balances from customers	–	428	–	–	373,505	–	373,933
Derivatives	1,059	–	–	–	–	695	1,754
Other financial liabilities	2,992	–	–	–	12,942	–	15,934
Subordinated liability	–	–	–	–	4,211	–	4,211
Total financial liabilities	5,374	428	–	–	397,262	695	403,759
Non-financial liabilities ^(b)							1,007
Total liabilities							404,766
2020							
Assets							
Cash and balances with central banks	–	–	–	–	27,465	–	27,465
Government securities and treasury bills	2,148	–	21,361	–	9,206	–	32,715
Due from banks	–	–	–	–	207,057	–	207,057
Derivatives	1,545	–	–	–	–	82	1,627
Bank and corporate securities ^(d)	–	–	8,619	256	2,365	–	11,240
Loans and advances to customers	–	–	–	–	194,052	–	194,052
Other financial assets	–	–	–	–	5,265	–	5,265
Total financial assets	3,693	–	29,980	256	445,410	82	479,421
Non-financial assets ^(a)							4,738
Total assets							484,159
Liabilities							
Due to banks	–	–	–	–	15,806	–	15,806
Deposits and balances from customers	–	406	–	–	404,395	–	404,801
Derivatives	1,414	–	–	–	–	211	1,625
Certificates of deposit issued	–	–	–	–	2,215	–	2,215
Other financial liabilities	1,095	–	–	–	12,487	–	13,582
Subordinated liability	–	–	–	–	4,186	–	4,186
Total financial liabilities	2,509	406	–	–	439,089	211	442,215
Non-financial liabilities ^(b)							134
Total liabilities							442,349

(a) Includes goodwill, properties and other fixed assets, and deferred tax assets

(b) Includes current tax liabilities and deferred tax liabilities. Lease liabilities are included in other financial liabilities

(c) Includes assets and liabilities that are held for trading and debt-type financial assets that are not SPPI in nature

(d) In 2020, the Group reclassified HK\$5,186 million of "Bank and corporate securities" from amortised cost to FVOCI. The reclassification occurred during 2020 as the Group changed its business model in response to the liquidity conditions brought about by COVID-19

15 CASH AND BALANCES WITH CENTRAL BANKS

In HK\$ millions	2021	2020
Cash in hand	841	576
Balances with central banks	4,706	26,889
Total	5,547	27,465

16 GOVERNMENT SECURITIES AND TREASURY BILLS

In HK\$ millions	Mandatorily at FVPL	FVOCI	Amortised cost	Total
2021				
Treasury bills ^(a)	2,661	17,714	–	20,375
Other debt securities ^(b)	1,663	7,474	9,044	18,181
Total	4,324	25,188	9,044	38,556
Of which:				
– Listed in Hong Kong, at fair value	1,663	–	–	1,663
– Listed outside Hong Kong, at fair value	–	611	–	611
– Listed outside Hong Kong, at cost	–	–	9,044	9,044
– Unlisted, at fair value	2,661	24,577	–	27,238
	4,324	25,188	9,044	38,556
Analysed by issuer as follows:				
– Sovereigns	4,324	25,188	9,044	38,556
Analysed by rating agency designation as follows:				
– AAA	–	6,862	–	6,862
– AA- to AA+	4,324	18,284	–	22,608
– A- to A+	–	42	9,044	9,086
	4,324	25,188	9,044	38,556
2020				
Treasury bills ^(a)	651	16,243	–	16,894
Other debt securities ^(b)	1,497	5,118	9,206	15,821
Total	2,148	21,361	9,206	32,715
Of which:				
– Listed in Hong Kong, at fair value	1,497	339	–	1,836
– Listed outside Hong Kong, at fair value	–	645	–	645
– Listed outside Hong Kong, at cost	–	–	9,206	9,206
– Unlisted, at fair value	651	20,377	–	21,028
	2,148	21,361	9,206	32,715
Analysed by issuer as follows:				
– Sovereigns	2,148	21,361	9,206	32,715
Analysed by rating agency designation as follows:				
– AAA	–	4,133	–	4,133
– AA- to AA+	2,148	16,889	–	19,037
– A- to A+	–	339	9,206	9,545
	2,148	21,361	9,206	32,715

2020

Treasury bills ^(a)	651	16,243	–	16,894
Other debt securities ^(b)	1,497	5,118	9,206	15,821
Total	2,148	21,361	9,206	32,715

Of which:

– Listed in Hong Kong, at fair value	1,497	339	–	1,836
– Listed outside Hong Kong, at fair value	–	645	–	645
– Listed outside Hong Kong, at cost	–	–	9,206	9,206
– Unlisted, at fair value	651	20,377	–	21,028
	2,148	21,361	9,206	32,715

Analysed by issuer as follows:

– Sovereigns	2,148	21,361	9,206	32,715
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Analysed by rating agency designation as follows:

– AAA	–	4,133	–	4,133
– AA- to AA+	2,148	16,889	–	19,037
– A- to A+	–	339	9,206	9,545
	2,148	21,361	9,206	32,715

(a) Includes financial assets pledged or transferred of HK\$2,661 million (2020: HK\$1,042 million) (See Note 35)

(b) Includes financial assets pledged or transferred of HK\$1,667 million (2020: HK\$1,355 million) (See Note 35)

The ratings refer to Standard & Poor's ratings (or their equivalent) to the respective issues of the securities, while in the absence of such issue ratings, ratings designated for the issuers or location of incorporation of the issuers are reported.

As at 31 December 2021, the fair value of the above debt securities classified as amortised cost is HK\$9,073 million (2020: HK\$9,238 million).

As at 31 December 2021 and 2020, there were no impaired, overdue or rescheduled FVOCI and amortised cost financial assets.

17 DUE FROM BANKS

In HK\$ millions	2021	2020
Balances with banks	4,580	4,823
Placements with and advances to banks		
Remaining maturity		
– Within one month	87,902	92,172
– One year or less but over one month	6,644	21,434
– Over one year and others	44,803	88,629
	139,349	202,235
Gross amount due from banks	143,929	207,058
Allowance for credit and other losses	(1)	(1)
Net amount due from banks	143,928	207,057

As at 31 December 2021 and 2020, there were no impaired, overdue or rescheduled placements with and advances to banks.

18 BANK AND CORPORATE SECURITIES

In HK\$ millions	Mandatorily at FVPL	FVOCI	Amortised cost	Total
2021				
Debt securities ^(a)	764	5,880	4,199	10,843
Equity securities	-	290	-	290
Allowance for credit and other losses	764	6,170	4,199	11,133
	-	-	(1)	(1)
	764	6,170	4,198	11,132
Of which:				
Debt securities				
- Listed in Hong Kong, at fair value	-	30	-	30
- Listed in Hong Kong, at cost	-	-	350	350
- Listed outside Hong Kong, at fair value	12	4,311	-	4,323
- Listed outside Hong Kong, at cost	-	-	3,848	3,848
- Unlisted, at fair value	752	1,539	-	2,291
	764	5,880	4,198	10,842
Equity securities				
- Unlisted, at fair value	-	290	-	290
	764	6,170	4,198	11,132
Analysed by issuer as follows:				
- Banks	764	5,880	3,509	10,153
- Corporates	-	290	689	979
	764	6,170	4,198	11,132
Debt securities analysed by rating agency designation as follows:				
- AAA	-	5,566	218	5,784
- AA- to AA+	-	-	489	489
- A to A+	764	314	3,374	4,452
- BBB- to BBB+	-	-	117	117
	764	5,880	4,198	10,842

In HK\$ millions	Mandatorily at FVPL	FVOCI	Amortised cost	Total
2020				
Debt securities ^(a)	-	8,619	2,366	10,985
Equity securities	-	256	-	256
Allowance for credit and other losses	-	8,875	2,366	11,241
	-	-	(1)	(1)
	-	8,875	2,365	11,240
Of which:				
Debt securities				
- Listed in Hong Kong, at fair value	-	108	-	108
- Listed in Hong Kong, at cost	-	-	340	340
- Listed outside Hong Kong, at fair value	-	4,757	-	4,757
- Listed outside Hong Kong, at cost	-	-	2,025	2,025
- Unlisted, at fair value	-	3,754	-	3,754
	-	8,619	2,365	10,984
Equity securities				
- Unlisted, at fair value	-	256	-	256
	-	8,875	2,365	11,240
Analysed by issuer as follows:				
- Banks	-	8,619	1,662	10,281
- Corporates	-	256	703	959
	-	8,875	2,365	11,240
Debt securities analysed by rating agency designation as follows:				
- AAA	-	7,888	-	7,888
- A- to A+	-	731	2,250	2,981
- BBB- to BBB+	-	-	115	115
	-	8,619	2,365	10,984

(a) ECL for FVOCI securities amounting to HK\$1 million (2020: \$1 million) are not shown in the table, as these securities are recorded at fair value

The ratings refer to Standard & Poor's ratings (or their equivalent) to the respective issues of the securities, while in the absence of such issue ratings, ratings designated for the issuers are reported.

As at 31 December 2021, the fair value of the above debt securities classified as amortised cost is HK\$4,218 million (2020: HK\$2,382 million).

As at 31 December 2021 and 2020, there were no impaired, overdue or rescheduled FVOCI and amortised cost financial assets.

19 LOANS AND ADVANCES TO CUSTOMERS

In HK\$ millions	2021	2020
Gross loans and advances to customers	242,401	197,624
Allowance for credit and other losses		
– Specific allowances	(1,355)	(1,341)
– General allowances	(2,096)	(2,231)
	238,950	194,052
Comprising:		
– Trade bills	7,410	9,718
– Loans	231,540	184,334
	238,950	194,052

Loans and advances to customers include finance leases and hire purchase contracts receivables and are analysed as follows:

In HK\$ millions	2021	2020
Gross investments in finance leases and hire purchase contracts receivables:		
– Not later than one year	478	447
– Later than one year and not later than five years	1,755	1,866
– Later than five years	5,809	6,368
	8,042	8,681
Unearned future finance income	(1,380)	(1,537)
Net investments in finance leases and hire purchase contracts receivables	6,662	7,144
The net investments in finance leases and hire purchase contracts receivables are analysed as follows:		
– Not later than one year	348	305
– Later than one year and not later than five years	1,307	1,378
– Later than five years	5,007	5,461
	6,662	7,144

Gross investments in finance lease and unearned future finance income in 2021 and 2020 are undiscounted lease payments to be received including fixed and variable interest rate contracts.

The unguaranteed residual values included in the gross investments in finance leases and hire purchase contracts receivables as at 31 December 2021 and 2020 are not material.

The specific allowances for finance leases and hire purchase contracts receivables amounted to HK\$4 million as at 31 December 2021 (2020: HK\$19 million).

20 OTHER ASSETS

In HK\$ millions	2021	2020
Accrued interest receivables	397	951
Acceptances	1,282	1,522
Deferred tax assets (Note 27(b))	393	240
Cash collateral placed	–	2
Others	2,012	2,822
	4,084	5,537
Allowance for credit and other losses	(9)	(32)
	4,075	5,505

21 SUBSIDIARIES

The main operating subsidiary of the Group, which is wholly and directly owned by the Bank, is listed below:

Name of company	Place of incorporation	Place of operation	Particulars of issued share capital	Principal activities
Ting Hong Nominees Limited	Hong Kong	Hong Kong	10,000 shares	Provision of nominee, trustee and agency services

22 GOODWILL

As at 31 December 2021, the carrying value of the Group's goodwill arising from acquisition of subsidiaries is allocated to the Group's cash-generating units (CGUs) or groups of CGUs as follows:

In HK\$ millions	2021	2020
Goodwill	168	168

The carrying values of the CGUs are reviewed at least once a year to determine if the goodwill associated with them should be impaired. If a CGU's carrying value exceeds its recoverable value, a goodwill impairment charge is recognised in the income statement.

The recoverable value is determined based on a value-in-use calculation. The CGU's five-year projected cash flows, taking into account projected regulatory capital requirements, are discounted by its cost of capital to derive their present value. To derive the value beyond the fifth year, a long-term growth rate is imputed to the fifth-year cash flow and then discounted by the cost of capital to derive the terminal value. The long-term growth rate used does not exceed the historical long-term growth rate of the market the CGU operates in. The recoverable value is the sum of the present value of the five-year cash flows and the terminal value.

A growth rate of 3.5% (2020: 3.5%) and discount rate of 9.0% (2020: 9.0%) were assumed in the value-in-use calculation.

The process of evaluating goodwill impairment involves management judgement and prudent estimates of various factors including future cash flows as well as the cost of capital and long-term growth rates. The results can be highly sensitive to the assumptions used. Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the operating unit to exceed its recoverable amount at 31 December 2021. However, if conditions in Hong Kong and the banking industry deteriorate and turn out to be significantly worse than anticipated in the Group's performance forecast, the goodwill may be impaired in future periods.

23 PROPERTIES AND OTHER FIXED ASSETS

In HK\$ millions	2021	2020
Owned properties and other fixed assets (Note 23(a))	2,156	2,205
Leased properties and other fixed assets (Note 23(b))	1,908	2,125
Total	4,064	4,330

(a) Owned Properties and other fixed assets

In HK\$ millions	Freehold land and building	Land and buildings	Furniture, fixtures and equipment	Subtotal	Investment properties	Total
2021						
Cost						
As at 1 January 2021	23	2,406	2,545	4,974	33	5,007
Additions	–	1	267	268	–	268
Disposals/written off ^(a)	–	(60)	(31)	(91)	–	(91)
As at 31 December 2021	23	2,347	2,781	5,151	33	5,184
Accumulated depreciation and impairment						
As at 1 January 2021	17	1,001	1,763	2,781	21	2,802
Charge for the year (Note 9)	–	19	271	290	–	290
Disposals/written off ^(a)	–	(37)	(27)	(64)	–	(64)
As at 31 December 2021	17	983	2,007	3,007	21	3,028
Net book value						
As at 31 December 2021	6	1,364	774	2,144	12	2,156
2020						
Cost						
As at 1 January 2020	23	2,364	2,390	4,777	33	4,810
Additions	–	42	228	270	–	270
Disposals/written off ^(a)	–	–	(73)	(73)	–	(73)
As at 31 December 2020	23	2,406	2,545	4,974	33	5,007
Accumulated depreciation and impairment						
As at 1 January 2020	17	978	1,547	2,542	21	2,563
Charge for the year (Note 9)	–	23	272	295	– [#]	295
Disposals/written off ^(a)	–	–	(56)	(56)	–	(56)
As at 31 December 2020	17	1,001	1,763	2,781	21	2,802
Net book value						
As at 31 December 2020	6	1,405	782	2,193	12	2,205

(a) Included amount written off of HK\$4 million (2020: HK\$14 million).

Amount under HK\$500,000.

The total market value of all properties as at 31 December 2021 was HK\$6,730 million (2020: HK\$6,813 million), of which investment properties accounted for HK\$220 million (2020: HK\$238 million). The market values are determined using investment method or using a combination of comparable sales and investment methods. The properties are classified under Level 3 of the fair value hierarchy and the significant unobservable input used for valuation is market yields. For the year ended 31 December 2021, there were no transfers into or out of Level 3.

The net book values of land and buildings and investment properties held by the Group are as follows:

In HK\$ millions	2021		2020	
	Land and buildings	Investment properties	Land and buildings	Investment properties
Freeholds				
Held outside Hong Kong	6	–	6	–
Leaseholds				
Held in Hong Kong				
– Leases of over 50 years	126	1	141	1
– Leases of between 10 to 50 years	1,237	11	1,263	11
Held outside Hong Kong				
– Leases of between 10 to 50 years	1	–	1	–
	1,364	12	1,405	12

(b) Lease properties and other fixed assets

In HK\$ millions	Properties	Other fixed assets	Total
2021			
As at 1 January 2021	1,946	179	2,125
Additions of right-of-use assets during the year	1	–	1
Changes of lease term	53	–	53
Depreciation charge for the year	(252)	(19)	(271)
As at 31 December 2021	1,748	160	1,908
2020			
As at 1 January 2020	2,053	123	2,176
Additions of right-of-use assets during the year	3	–	3
Changes of lease term	163	80	243
Depreciation charge for the year	(273)	(24)	(297)
As at 31 December 2020	1,946	179	2,125

The Group's leases comprise primarily of office premises, branches and data centres. The leases of office premises are contracted for periods up to 7 years, whilst leases of other assets are up to 4 years. Some leases may also include renewal rights.

Lease payments are generally agreed upfront except for lease payments on certain significant leases of office premises and for renewal periods whereby the lease payments are subject to periodic adjustments based on prevailing market rates.

24 DEPOSITS AND BALANCES FROM CUSTOMERS

In HK\$ millions	2021	2020
Deposits from customers, at amortised cost	373,505	404,395
Structured investment deposits classified as financial liabilities designated at FVPL ^(a)	428	406
	373,933	404,801
Analysed by:		
– Demand deposits and current accounts	84,571	120,828
– Savings deposits	224,496	204,845
– Time, call and notice deposits	64,866	79,128
	373,933	404,801

(a) Changes in fair value arising from changes in credit risk are determined as the amount of change in their fair value that is not attributable to changes in market conditions that give rise to market risk. Changes in market conditions that give rise to market risk include changes in benchmark interest rate, foreign exchange rate or index of prices or rates. Changes in fair value arising from changes in credit risk are considered not significant. The carrying amount of the financial liabilities designated at fair value through profit or loss was HK\$2 million higher than the contractual amount at maturity as at 31 December 2021 (2020: HK\$1 million higher).

25 CERTIFICATES OF DEPOSIT ISSUED

In HK\$ millions	2021	2020
Certificates of deposit issued, measured at amortised cost	–	2,215

26 OTHER LIABILITIES

In HK\$ millions	2021	2020
Accrued interest payable	103	121
Acceptances	1,282	1,522
Current income tax liabilities (Note 27(a))	1,007	132
Deferred tax liabilities (Note 27(b))	–	1
Payable in respect of short sale of securities	2,992	1,095
Lease liabilities ^(c)	1,992	2,208
Other liabilities and provisions ^{(a) (b)}	9,565	8,637
	16,941	13,716

(a) Includes income received in advance of HK\$1,002 million (2020: HK\$1,114 million) arising from the 15-year distribution agreement with Manulife to be amortised on a straight-line basis. HK\$112 million (2020: HK\$112 million) of the income received in advance was recognised as fee income during the year.

(b) Includes allowance for credit and other losses of HK\$132 million (2020: HK\$208 million).

(c) Total lease payments made during the year amounted to HK\$295 million (2020: HK\$323 million).

27 TAXATION

(a) Current income tax liabilities

In HK\$ millions	2021	2020
Current income tax liabilities (Note 26)		
Hong Kong profits tax payable	994	118
Overseas tax payable	13	14
	1,007	132

(b) Deferred income tax

In HK\$ millions	2021	2020
Included in "Other assets" (Note 20)		
– Deferred tax assets	393	240
Included in "Other liabilities" (Note 26)		
– Deferred tax liabilities	–	(1)
	393	239

The movements on the net deferred tax assets and liabilities are as follows:

In HK\$ millions	2021	2020
As at 1 January	239	181
Deferred income tax (charged)/credited to income statement (Note 12(a))	(44)	149
Deferred income tax credited/(debited) to equity (Note 29(b))	198	(91)
As at 31 December	393	239

Deferred tax assets and liabilities are attributable to the following items:

In HK\$ millions	2021	2020
Deferred tax assets		
Impairment allowances	405	440
Share-based compensation	22	20
Right-of-use assets and lease liabilities	–	–
Accrued expenses	7	21
Revaluation of investment securities	23	–
Cash flow hedge investment	52	–
Tax loss	2	–
	511	481
Deferred tax liabilities		
Impairment allowances	(1)	(1)
Accelerated depreciation allowances	(117)	(118)
Cash flow hedge investment	–	(96)
Revaluation of investment securities	–	(27)
	(118)	(242)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The deferred tax assets and liabilities are to be recovered and settled after one year and the following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

In HK\$ millions	2021	2020
Deferred tax assets	511	481
Deferred tax liabilities	(118)	(241)
Deferred tax assets included in "Other assets"	393	240

28 SUBORDINATED LIABILITY

On 13 December 2017, the Bank issued a subordinated loan (the "Loan") of US\$540 million to DBSH. Interest on the Loan is payable quarterly at USD 3-month LIBOR plus 1.62% per annum. The Loan has a repayment date of 13 December 2027 and may be prepaid on 13 December 2022 or any date thereafter. The terms require the Loan to be written off if and when the Hong Kong Monetary Authority ("HKMA") notifies the Bank that a write-off, or a public sector injection of capital (or equivalent support), is necessary, without which the Bank would become non-viable. In addition, the lender of the Loan is subject to the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority. The Loan qualifies as Tier 2 capital of the Bank under the Banking (Capital) Rules made by the HKMA.

29 CAPITAL AND RESERVES

(a) Share capital

	2021	HK\$	2020	HK\$
	Number of shares	millions	Number of shares	millions
Ordinary shares				
At 1 January and 31 December	7,000 million	7,595	7,000 million	7,595
Preference shares⁽ⁱ⁾				
At 1 January and 31 December	140	1,400	140	1,400
Issued share capital at 31 December		8,995		8,995

(i) The Bank issued 140 non-cumulative Class A preference shares to its parent holding company, DBSH, on 13 October 2016 for an aggregate issue price of HK\$1,400 million. Dividends are payable annually at the rate of 3.9% per annum at the discretion of the Bank. The preference shares are redeemable on 13 October 2021 or any date thereafter. The terms require the preference shares to be converted into ordinary shares if and when the HKMA notifies the Bank that a conversion of the instrument, or a public sector injection of capital (or equivalent support), is necessary, without which the Bank would become non-viable. In addition, the holder of the preference shares is subject to the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority. The preference shares qualify as Additional Tier 1 capital of the Bank under the Banking (Capital) Rules made by the HKMA. Pursuant to a notice of redemption issued on 6 January 2022, all of the outstanding preference shares were redeemed by the Bank on 13 January 2022.

(b) Reserves**Group**

In HK\$ millions	Capital reserves	FVOCI reserve	Cash flow hedge reserve	Property revaluation reserve	General reserve	Retained earnings	Total reserves
2021							
Balance as at 1 January 2021	12	361	481	9	2,399	29,553	32,815
Net valuation taken to equity	–	(250)	(526)	–	–	–	(776)
Transferred to income statement	–	(17)	(368)	–	–	–	(385)
Deferred income tax credited to equity (Note 27(b))	–	50	148	–	–	–	198
Profit attributable to shareholders	–	–	–	–	–	4,750	4,750
Dividend	–	–	–	–	–	(2,555)	(2,555)
Balance as at 31 December 2021	12	144	(265)	9	2,399	31,748	34,047
2020							
Balance as at 1 January 2020	12	160	169	9	2,399	27,283	30,032
Net valuation taken to equity	–	341	572	–	–	–	913
Transferred to income statement	–	(111)	(198)	–	–	–	(309)
Deferred income tax debited to equity (Note 27(b))	–	(29)	(62)	–	–	–	(91)
Profit attributable to shareholders	–	–	–	–	–	4,325	4,325
Dividend	–	–	–	–	–	(2,055)	(2,055)
Balance as at 31 December 2020	12	361	481	9	2,399	29,553	32,815

Bank

In HK\$ millions	FVOCI reserve	Cash flow hedge reserve	Property revaluation reserve	General reserve	Retained earnings	Total reserves
2021						
Balance as at 1 January 2021	361	481	9	2,285	29,480	32,616
Net valuation taken to equity	(250)	(526)	–	–	–	(776)
Transferred to income statement	(17)	(368)	–	–	–	(385)
Deferred income tax credited to equity (Note 27(b))	50	148	–	–	–	198
Profit attributable to shareholders	–	–	–	–	4,750	4,750
Dividend	–	–	–	–	(2,555)	(2,555)
Balance as at 31 December 2021	144	(265)	9	2,285	31,675	33,848
2020						
Balance as at 1 January 2020	160	169	9	2,285	27,211	29,834
Net valuation taken to equity	341	572	–	–	–	913
Transferred to income statement	(111)	(198)	–	–	–	(309)
Deferred income tax debited to equity (Note 27(b))	(29)	(62)	–	–	–	(91)
Profit attributable to shareholders	–	–	–	–	4,324	4,324
Dividend	–	–	–	–	(2,055)	(2,055)
Balance as at 31 December 2020	361	481	9	2,285	29,480	32,616

Property revaluation reserve represents the difference between the carrying amount and the fair value of the properties transferred as investment property at the date of changes.

General reserve is comprised of transfers from the previous years' retained earnings.

As at 31 December 2021, HK\$239 million was earmarked as the regulatory reserve from the retained earnings (2020: Nil). The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Valuation process

The valuation processes within the Group are governed by the Valuation Policy and Supporting Standards. These policy and standards apply to financial assets and liabilities where mark-to-market or model valuation is required. The overall framework is endorsed by Group Market and Liquidity Risk Committee and Risk Executive Committee before approval by the Board Risk Management Committee.

The Valuation Policy and Supporting Standards govern the revaluation of all financial assets and liabilities that are fair value measured, covering both market prices as well as model inputs. Financial assets and liabilities are marked directly using reliable and independent market prices or by using reliable and independent market parameters (as model inputs) in conjunction with a valuation model. Products with a liquid market or those traded via an exchange will fall under the former while most over-the-counter ("OTC") products will form the latter. Market parameters include interest rate yield curves, credit spreads, exchange prices, dividend yields, option volatilities and foreign exchange rates.

Valuation models go through an assurance process carried out by the Risk Management Group, independent of the model developers. This assurance process would review the underlying methodology including its logic and conceptual soundness together with the model inputs and outputs. Model assurances are conducted prior to implementation and subject to regular review or when there are significant changes arising from market or portfolio changes. Where necessary, the Group also imposes model reserves and other adjustments in determining fair value. Models are approved by the Group Market and Liquidity Risk Committee.

The majority of OTC derivatives are traded in active markets. Valuations are determined using generally accepted models (discounted cash flows, Black-Scholes model, interpolation techniques) based on quoted market prices for similar instruments or underlyings or market parameters.

A process of independent price verification ("IPV") is in place to establish the accuracy of the market parameters used when the marking is performed by the Front Office. The IPV process entails independent checks to compare traders' marks to independent sources such as broker/dealer sources or market consensus providers. The results of the IPV are reviewed by independent control functions on a monthly basis.

For illiquid financial instruments where mark-to-market is not possible, the Group will value these products using an approved valuation model. Prices and parameters used as inputs to the model or to any intermediate technique involving a transformation process must be derived using approved market reliable sources. Where possible, the inputs must be checked against multiple sources for reliability and accuracy. Reliance will be placed on the model assurance process established by Risk Management Group for assurance of valuation models as fit for purpose.

The Group uses various market accepted benchmark interest rates such as LIBOR and Swap Offer Rates to determine the fair value of the financial instruments.

Where unobservable inputs are used in these models resulting in Level 3 classification, valuation adjustments or reserves will be taken for the purpose of adjusting for uncertainty in valuations. Valuation adjustment or reserve methodologies are used to substantiate the unobservable inputs and attempt to quantify the level of uncertainty in valuations. Such methodologies are governed by the Valuation Policy and Supporting Standards and require approval by the Group Market and Liquidity Risk Committee.

The main valuation adjustments and reserves are described below:

Model and Parameter Uncertainty Adjustments

Valuation uncertainties may occur during fair value measurement either due to uncertainties in the required input parameters or uncertainties in the modelling methods used in the valuation process. In such situations, adjustments may be necessary to take these factors into account.

For example, where market data such as prices or rates for an instrument are no longer observable after an extended period of time, these inputs used to value the financial instruments may no longer be relevant in the current market conditions. In such situations, adjustments may be necessary to address the pricing uncertainty arising from the use of stale market data inputs.

Credit Valuation Adjustments

Credit valuation adjustments are taken to reflect the impact on fair value of counterparty credit risk. Credit valuation adjustments are based upon the creditworthiness of the counterparties, magnitude of the current or potential exposure on the underlying transactions, netting and collateral arrangements, and the maturity of the underlying transactions.

Day 1 Profit or Loss (P&L) Reserve

In situations where the market for an instrument is not active and its fair value is established using a valuation model based on significant unobservable market parameters, Day 1 P&L reserve is utilised to defer the P&L arising from the difference between the transaction price and the model value. A market parameter is defined as being significant when its impact on the Day 1 P&L is greater than an internally determined threshold. The Day 1 P&L reserve is released to profit or loss as the parameters become observable or the transaction closed out or amortised over the duration of the transaction. As at 31 December 2021, there was no Day 1 P&L reserve (31 December 2020: Nil).

Bid Offer Adjustments

The Group often holds, at varying points in time, both long or short positions in financial instruments which are valued using mid market levels. Bid offer adjustments are then made to account for close-out costs.

(b) Fair value hierarchy

The fair value hierarchy accords the highest level to observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities and the lowest level to unobservable inputs. The fair value measurement of each financial instrument is categorised in accordance to the same level of the fair value hierarchy as the input with the lowest level that is significant to the entire measurement. If unobservable inputs are deemed as significant, the financial instrument will be categorised as Level 3.

Financial instruments that are valued using quoted prices in active markets are classified as Level 1 within the fair value hierarchy. These would include government and sovereign securities, listed equities and corporate debt securities which are actively traded. Derivatives contracts which are traded in an active exchange market are also classified as Level 1 of the valuation hierarchy.

Where fair value is determined using quoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group will determine the fair value based on valuation techniques that use market parameters as inputs including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include corporate debt securities, repurchase, reverse repurchase agreements and most of the Group's over-the-counter derivatives.

The Group classifies financial instruments as Level 3 when there is reliance on unobservable market parameters whether used directly to value a financial asset or liability, or used as inputs to a valuation model, attributing to a significant contribution to the instrument value. These would include all input parameters which are derived from historical data, for example, asset correlations or certain volatilities. Level 3 instruments also include unquoted equity securities which are measured based on the net asset value of the investments. In addition, Level 3 inputs include all stale quoted security prices and other approximations (e.g. bonds valued using credit default swap spreads).

The following tables present assets and liabilities measured at fair value, classified by level within the fair value hierarchy:

In HK\$ millions	Level 1	Level 2	Level 3	Total
2021				
Assets				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	4,324	–	–	4,324
– Due from Banks	–	219	–	219
– Bank and corporate securities	752	12	–	764
Fair value through other comprehensive income financial assets				
– Government securities and treasury bills	24,761	427	–	25,188
– Bank and corporate securities	5,880	–	290	6,170
Derivatives	5	1,383	–	1,388
Liabilities				
Financial liabilities at fair value through profit or loss				
– Payable in respect of short sale of securities	2,992	–	–	2,992
– Deposits and balances from customers	–	428	–	428
– Due to Banks	–	1,323	–	1,323
Derivatives	–	1,754	–	1,754
2020				
Assets				
Financial assets at fair value through profit or loss				
– Government securities and treasury bills	2,148	–	–	2,148
– Due from Banks	–	–	–	–
Fair value through other comprehensive income financial assets				
– Government securities and treasury bills	20,954	407	–	21,361
– Bank and corporate securities	8,589	30	256	8,875
Derivatives	–	1,627	–	1,627
Liabilities				
Financial liabilities at fair value through profit or loss				
– Payable in respect of short sale of securities	1,095	–	–	1,095
– Deposits and balances from customers	–	406	–	406
– Due to Banks	–	–	–	–
Derivatives	–	1,625	–	1,625

During the year, the Group transferred financial assets from Level 2 to Level 1 due to direct market quotes became available.

(c) Fair value of financial assets and liabilities not carried at fair value

For financial assets and liabilities not carried at fair value in the financial statements, the Group has ascertained that their fair values were not materially different from their carrying amounts at year end as shown below. The bases of arriving at their fair values are as follows:

(i) Due from banks

The estimated fair value of placements with and advances to banks is based on the discounted cash flows using the prevailing money market interest rates for placements and advances with similar remaining maturity.

(ii) Loans and advances to customers

The fair value approximates their carrying amount as majority of the loans and advances to customers are on floating rate terms.

(iii) Bank and corporate securities – loans and receivables

The fair values are determined based on independent market quotes, where available. Where market prices are not available, fair values are estimated using discounted cash flow method. The fair value is set out in Note 18.

(iv) Due to banks and Deposits and balances from customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of deposits and other borrowings with fixed interest rates is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

(v) Certificates of deposit issued

The estimated fair value of certificates of deposit issued is based on discounted cash flows using the prevailing money market interest rates with similar remaining maturity.

(vi) Subordinated liability

The fair value of subordinated liability approximates its carrying amount as it is on floating rate term and bears interest at prevailing market interest rate.

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Analysis of changes in financing activities during the year****Lease liabilities**

In HK\$ millions	2021	2020
Balance as at 1 January	2,208	2,259
Interest element of lease liabilities	25	26
Cash outflow from financing activities	(295)	(323)
Net change due to addition and changes of lease term	54	246
Balance as at 31 December	1,992	2,208

(b) Analysis of the balances of cash and cash equivalents

In HK\$ millions	2021	2020
Cash and balances with central banks	5,547	27,465
Due from banks		
– Balances with banks	4,580	4,823
– Placements with and advances to banks repayable with original maturity within three months	87,006	91,552
Bills and notes repayable with original maturity within three months	9,369	6,754
	106,502	130,594

32 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**(a) Derivatives**

The Group uses financial derivatives to hedge the positions of the Group. It also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short term market movements in bond price, currency and interest rate. The Group places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The following is a summary of each significant type of derivatives:

In HK\$ millions	Contract/ notional amount	Positive fair values	Negative fair values
2021			
Derivatives held for trading			
Interest rate derivatives			
– Interest rate swaps	40,833	372	501
– Interest rate futures	1,209	5	–
– Interest rate options	5,458	7	7
Sub-total	47,500	384	508
Foreign exchange (FX) derivatives			
– FX contracts	75,703	342	380
– Currency swaps	7,232	47	48
– Currency options	27,248	35	35
Sub-total	110,183	424	463
Equity derivatives	2,582	74	74
Credit derivatives	731	10	10
Commodity derivatives	316	4	4
Total derivatives held for trading	161,312	896	1,059
Derivatives held for hedging			
Interest rate swaps held for fair value hedge	–	–	–
Interest rate swaps held for cash flow hedge	30,000	–	360
Currency swaps held for cash flow hedge	10,538	492	335
Total derivatives held for hedging	40,538	492	695
Total derivatives	201,850	1,388	1,754

In HK\$ millions	Contract/ notional amount	Positive fair values	Negative fair values
2020			
Derivatives held for trading			
Interest rate derivatives			
– Interest rate swaps	35,996	698	856
– Interest rate futures	155	–	–
– Interest rate options	4,651	10	10
Sub-total	40,802	708	866
Foreign exchange (FX) derivatives			
– FX contracts	79,324	600	311
– Currency swaps	7,936	52	52
– Currency options	36,932	91	91
Sub-total	124,192	743	454
Equity derivatives	1,280	68	68
Credit derivatives	8,614	26	26
Commodity derivatives	–	–	–
Total derivatives held for trading	174,888	1,545	1,414
Derivatives held for hedging			
Interest rate swaps held for fair value hedge	450	8	1
Currency swaps held for cash flow hedge	8,419	74	210
Total derivatives held for hedging	8,869	82	211
Total derivatives	183,757	1,627	1,625

The amounts are shown on a gross basis and do not take into account the effect of bilateral netting arrangements. The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at the end of the reporting period; they do not represent amounts at risk.

(b) Hedging derivatives

The accounting treatment of the hedge derivative transactions varies according to the nature of the hedge and whether the hedge meets the specified criteria to qualify for hedge accounting. Derivatives transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments held for trading purposes.

(c) Hedge accounting

The Group enters into hedging transactions to manage exposures to interest rate and foreign currency risks. Hedge accounting is applied to minimise volatility in earnings arising from changes in interest rate and foreign exchange rates.

Refer to Note 37 for more information on market risk and the Group's risk management practices and Note 2(p) for the Group's accounting policy for hedge accounting.

Fair value hedge

In accordance with the risk management strategy in place, the Group enters into interest rate swaps to mitigate the risk of changes in interest rates on the fair value of the following:

- issued fixed rate debt; and
- a portion of purchased fixed rate bonds;

In such instances, the Group hedges the benchmark interest rate risk component which is an observable and reliably measurable component of interest rate risk. Specifically, the Group has designated fair value hedge relationships, on a hedge-by-hedge basis, to hedge against movements in the benchmark interest rate. This effectively results in the recognition of interest expense (for fixed rate liabilities), or interest income (for fixed rate assets) at floating rates.

The Group manages all other risks derived by these exposures, such as credit risk, but hedge accounting is not applied for those risks.

The Group assesses prospective hedge effectiveness by comparing the changes in fair value of the hedged item resulting from movements in the benchmark interest rate with the changes in fair value of the interest rate swaps used to hedge the exposure. The Group determines the hedge ratio by comparing the notional of the derivative with the principal of the debt issued or the bond asset purchased, or the loan granted.

For all interest rate swaps used for hedging purposes, critical terms match or nearly match those of the underlying hedged items.

The Group has identified the following possible sources of ineffectiveness:

- The use of derivatives as a protection against interest rate risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into derivatives with high credit quality counterparties; or
- Use of different discounting curves when measuring the fair value of the hedged items and hedging instruments. For derivatives the discounting curve used depends on collateralisation and the type of collateral used; or
- Difference in the timing of settlement of hedging instruments and hedged items.

No other significant sources of ineffectiveness were identified in these hedge relationships.

The following table sets out the maturity profile of the hedging instruments used in fair value hedges. The amounts shown in the table reflect the notional amounts of derivatives. Refer to Note 32(a) for the carrying values of the derivatives.

In HK\$ millions	Less than 1 year	1 to 5 years	More than 5 years	Total
2021				
Derivatives (notional)				
Interest rate swaps	–	–	–	–
2020				
Derivatives (notional)				
Interest rate swaps	450	–	–	450

The table below provides information on hedged items relating to fair value hedges.

In HK\$ millions	Carrying amounts (including hedge adjustments)	Fair value hedge adjustments included in carrying amounts
2021		
Assets		
Bank and corporate debt securities	–	–
Liabilities		
Other debt securities	–	–
2020		
Assets		
Bank and corporate debt securities	234	–
Liabilities		
Other debt securities	218	1

For the year ended 31 December 2021, the net losses on hedging instruments used to calculate hedge effectiveness was HK\$1 million (2020: losses of HK\$4 million). The net gains on hedged items attributable to the hedged risk amounted to HK\$1 million (2020: gains of HK\$4 million). The ineffectiveness arising from these hedges for 2021 and 2020 were insignificant and recorded in the income statement as "net trading income".

Cash flow hedge

The Group is predominantly exposed to variability in future cash flows due to interest rate movements and foreign currency fluctuations against HKD from the following:

- forecasted interest earnings denominated in foreign currency;
- issued floating or fixed rate foreign currency debt; and
- a portion of purchased floating or fixed rate foreign currency bonds.

In accordance with the Group risk management strategy the Group enters into interest rate swaps, forward contracts or cross currency swaps to protect against the variability of cash flows due to changes in interest rates and/or foreign currency exchange rates. In such instances, cash flow hedge relationships are designated. These are applied on a hedge-by-hedge basis.

The Group also enters into cross currency swaps to mitigate 100% of the risk of fluctuation of coupon and principal cash flows due to changes in foreign currency rates of issued foreign currency debt and a portion of purchased foreign currency bonds. Critical terms of the cross-currency swaps match that of the issued foreign currency debt or purchased foreign currency bonds. In this way the Group exchanges foreign currency interest and principal cash flows, to HKD cash flows.

The Group manages all other risks derived by these exposures, such as credit risk, but they do not apply hedge accounting for these risks.

The Group has identified the following possible sources of ineffectiveness in its cash flow hedge relationships:

- The use of derivatives as a protection against currency and interest rate risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into derivatives with high credit quality counterparties;
- Difference in tenor of hedged items and hedging instruments;
- Difference in timing of settlement of the hedging instrument and hedged item.
- Designation of off-market hedging instruments.

The following table sets out the maturity profile of the hedging instruments used in cash flow hedges. The amounts shown in the table reflect the notional amounts of derivatives. Refer to Note 32(a) for the carrying values of the derivatives.

In HK\$ millions	Less than 1 year	1 to 5 years	More than 5 years	Total
2021				
Derivatives (notional)				
Interest Rate Swaps	–	30,000	–	30,000
Currency swaps FX contracts	1,558	5,695	3,285	10,538
2020				
Derivatives (notional)				
Currency swaps FX contracts	–	5,690	2,729	8,419

The currency swaps have maturity dates that coincide within the expected occurrence of these transactions. The forecast transactions are expected to occur within seven years from the balance sheet date and are expected to affect income statements in the same period these cash flow occur.

The ineffectiveness arising from these hedges for 2021 and 2020 were insignificant.

Refer to Note 29 for information on the cash flow hedge reserve.

Interest Rate Benchmark Reform

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY London Interbank Offered Rate (LIBOR) settings and the one-week and two-month USD LIBOR settings had discontinued after 31 December 2021. The remaining USD LIBOR settings will discontinue after 30 June 2023.

The Group's main interest rate benchmark exposures are USD LIBOR, Secured Overnight Financing Rate (SOFR) will be adopted as the Alternative Reference Rate (ARR) to replace USD LIBOR.

Changes in contractual cash flows of financial instruments

As described in Note 2(b), the Group adopted 'Phase 2' amendments on 1 January 2021. The 'Phase 2' amendments provide practical expedients that require changes in the contractual cash flows of financial instruments that result solely from IBOR reform and are economically equivalent to be accounted for by updating the effective interest rate, rather than recognising an immediate gain or loss in the income statement. These changes include addition of a fixed spread to compensate for the basis difference between an IBOR and its ARR, changes to the reset period, reset dates or the number of days between coupon payment dates necessary to implement an IBOR reform and the addition of a fallback provision to the contractual terms of a financial instrument to allow any of the above changes to be made.

Hedge accounting

The HKFRS 9 requirements in respect of hedge accounting were amended in two phases. The first set of amendments ('Phase 1' amendments), which was adopted by the Group in 2020, provide temporary exceptions that allow continuation of hedge accounting for existing hedge relationships under the assumption that IBOR-based hedged cash flows are not altered as a result of uncertainty arising from IBOR reform. The uncertainty ends when the key terms of transition have been finalised i.e. the timing of the transition and adjustment spreads between an IBOR and its ARR have been finalised for the affected contracts.

'Phase 2' amendments require the Group to continue hedge accounting when changes to the hedging instrument, hedged item and hedged risk arise solely from IBOR reform. Hedge ineffectiveness (e.g. arising from mismatches of timing, or cash flows) would continue to be recorded in the income statement. As at 31 December 2021, the Group has no hedge relationship that are impacted by IBOR reform.

How the Group is managing the transition to ARR

A DBS Group steering committee was established in 2019 to manage the impact of IBOR reform on the DBS Group. The committee comprises senior representatives from Institutional Banking Group, Consumer Banking Group, Treasury Markets, Finance, Risk Management Group, Technology & Operations, Legal and Compliance and DBS Group Strategic Marketing and Communications and is chaired by the Corporate Treasurer. The Terms of Reference of the committee are to review transition plans related to LIBOR discontinuation and other interest rate benchmark reform, to assess the DBS Group's key risks across different scenarios, and to develop strategies to manage existing and new business in the context of these risks. Oversight of IBOR reform is provided by the DBS Group Executive Committee and the Board Risk Management Committee.

A Hong Kong IBOR Transition Working Group was also established in 2019 and co-ordinates closely with the DBS Group Steering Committee. This Working Group is chaired by the Head of Hong Kong Corporate Treasury and is represented by business and support units across the Bank. The purpose of this Working Group is to review the local benchmark rate transition plans while considering local regulatory requirements and mitigate the risks involved. The Board Risk Management Committee is kept informed of the preparatory work and provides oversight of the process.

As at 31 December 2021, changes required to systems, processes and models have been identified and have been implemented. Contracts with interest rates that are pegged to GBP, CHF, EUR, JPY LIBOR or one-week and two-month tenors for USD LIBOR have been remediated. For contracts referencing the remaining USD LIBOR settings, the Group has communicated with relevant counterparties and contract remediation is ongoing.

The Group has identified that the risks arising from IBOR reform are:

- Risk of contractual disputes arising from the lack of legal clauses catering for the discontinuation of an interest rate benchmark, and its replacement with an ARR, or such clauses failing to operate as expected; and
- Risk of reputational harm due to poor customer management related to interest rate benchmark discontinuation, leading to loss of customer business.

These risks are mitigated through robust oversight by the DBS Group steering committee and Working Group. The DBS Group will continue to identify and assess risks associated with IBOR reform.

Exposures impacted by IBOR reform

The table below provides an overview of significant IBOR-related exposure by interest rate benchmarks as at 31 December 2021.

- The exposures disclosed are for positions with contractual maturities after the announced IBOR cessation dates^(a).
- Non-derivative financial instruments are presented on the basis of their carrying amounts.
- Derivative financial instruments are presented by using their notional contract amounts and where derivatives have both pay and receive legs with exposure to IBOR reform, such as cross currency swaps, the notional contract amount is disclosed for both legs.

In HK\$ millions	USD LIBOR
Non-derivative financial assets ^(b)	7,344
Non-derivative financial liabilities ^(c)	4,211
Derivatives (notional)	30,639
Of which, hedging derivatives ^(d)	–

(a) The expected cessation date for USD LIBOR is 30 June 2023.

(b) Relates to "loans and advances to customers"

(c) Relates to "subordinated loan"

(d) As at 31 December 2021, the Group has no hedge relationship that are impacted by IBOR reform.

33 CONTINGENT LIABILITIES AND COMMITMENTS

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

In HK\$ millions	2021	2020
Direct credit substitutes	262	603
Transaction-related contingencies	3,484	2,526
Trade-related contingencies	9,201	11,604
Forward deposits placed	–	1,798
Other commitments with an original maturity of not more than one year	550	212
Other commitments with an original maturity of more than one year	19,542	13,720
Other commitments which are unconditionally cancellable	173,834	161,747
	206,873	192,210
Credit risk-weighted amount	21,700	21,445

The information is prepared with reference to the Banking (Capital) Rules. For accounting purposes, acceptances are recognised on the statement of financial position in "Other assets" and "Other liabilities" in accordance with HKFRS 9 Financial Instruments. For the purpose of the Banking (Capital) Rules, acceptances are included in the capital adequacy calculation as if they were trade-related contingencies. The contract amount of acceptances included in the table above was HK\$1,282 million (2020: HK\$1,522 million).

Other than the claims with provisions recognised in other liabilities, the Group is currently being served a number of claims related to the normal commercial activities. It is not probable that a significant liability would arise from these claims for the year ended 31 December 2021 and 2020.

34 CAPITAL COMMITMENTS

Capital commitments outstanding at the end of the reporting period but not yet incurred are as follows:

In HK\$ millions	2021	2020
Expenditure contracted but not provided for	15	30
Expenditure authorised but not contracted for	10	8
	25	38

35 SECURITIES PLEDGED OR TRANSFERS OF FINANCIAL ASSETS

The Group pledges or transfers financial assets to third parties or group companies in the ordinary course of business. Transferred assets continue to be recognized in the Group's financial statements when the Group retains substantially all their risks and rewards. Among these, as set out below, are securities pledged or transferred to secure the Group's short position in securities or pursuant to the repurchase or securities lending agreement.

Securities transferred under repurchase and securities lending arrangements are generally conducted under terms in line with normal market practice. The counterparty is typically allowed to sell or re-pledge the securities but has an obligation to return them at maturity. If the securities decrease in value, the Group may, in certain circumstances, be required to place additional collateral.

For repurchase agreements, the securities pledged or transferred continue to be recorded on the balance sheet while cash received in exchange is recorded as a financial liability. The Group also pledges assets to secure its short position in securities and to facilitate settlement operations. The fair value of the associated liabilities approximates their carrying amount of HK\$4,315 million (2020: HK\$2,378 million), which are recorded under "Due to banks" and "Other liabilities" on the balance sheet.

In HK\$ millions	2021	2020
Assets pledged or transferred		
– Government securities and treasury bills	4,328	2,397

The assets pledged as security included financial assets at fair value through profit or loss of HK\$3,012 million (2020: HK\$722 million).

There were no securities lending transaction outstanding as at 31 December 2021 and 2020.

36 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are presented net when there is a legally enforceable right to set off the recognised amounts, and there is intention to settle them on a net basis or to realise the asset and settle the liability simultaneously. As at 31 December 2021, no financial assets and liabilities were offset on the statement of financial position (2020: Nil).

Financial assets and liabilities subject to netting agreements but not offset on the statement of financial position

The Group enters into master netting arrangements with counterparties where it is appropriate and feasible to do so to mitigate counterparty risk. The credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis. Master netting arrangements do not result in an offset of financial assets and liabilities on the statement of financial position, as the legal right to set off the transactions is conditional upon default.

These agreements include derivative master agreements (including the International Swaps and Derivatives Association (ISDA) Master Agreement), global master repurchase agreements and global securities lending agreements. The collaterals received and pledged under these agreements are generally conducted under terms that are in accordance with normal market practice. The agreements may allow rehypothecation of collateral received and there may be ongoing margin requirements to mitigate counterparty risk.

The disclosures set out in the tables below pertain to financial assets and liabilities that are not offset in the Group's statement of financial position but are subject to master netting arrangements or similar agreements that covers similar financial instruments. The disclosures enable the understanding of both the gross and net amounts, as well as provide additional information on how such credit risk is mitigated.

In HK\$ millions	Carrying amounts on statement of financial position	Related amounts not offset on statement of financial position		Net amounts ^(b)
		Financial instruments (including non-cash collateral) ^(a)	Cash collateral received / pledged	
2021				
Financial assets				
Positive fair values for financial derivatives	1,388	523	600	265
Reverse repurchase agreements	11,872	11,855	–	17
Total	13,260	12,378	600	282
Financial liabilities				
Negative fair values for financial derivatives	1,754	523	–	1,231
Repurchase agreements	1,323	1,315	–	8
Payable in respect of short sale of securities	2,992	2,992	–	–
Total	6,069	4,830	–	1,239
2020				
Financial assets				
Positive fair values for financial derivatives	1,627	844	349	434
Reverse repurchase agreements	8,699	8,682	–	17
Total	10,326	9,526	349	451
Financial liabilities				
Negative fair values for financial derivatives	1,625	844	2	779
Repurchase agreements	1,283	1,283	–	–
Payable in respect of short sale of securities	1,095	1,095	–	–
Total	4,003	3,222	2	779

(a) Amounts under "Financial instruments (including non-cash collateral)" represent the amounts of financial liabilities/assets position and other non-cash collateral that are subject to netting agreement or similar arrangements, capped at the carrying amount of the financial instruments.

(b) Net amounts represent

- Financial instruments that are not subject to netting agreement or similar arrangements; or
- Financial assets/liabilities that are subject to netting agreement or similar arrangements but the Group's counterparty does not have equivalent financial liabilities/assets position with the Group to offset upon default.

37 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 the Group's risk-taking.

(a) Credit risk

Credit risk arises from the Group'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 Group'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 (CCRP) established for Consumer Banking/Wealth Management and Institutional Banking set forth the principles by which the Group conducts its credit risk management and control activities. These policies, supplemented by a number of operational standards and guides, 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 standards and guides are established to provide greater details on the implementation of the credit principles within DBSH's CCRP and are adapted to reflect different credit environments and portfolio risk profiles.

- **Risk Methodologies**

Credit risk is managed by thoroughly understanding our corporate customers – the businesses they are in, as well as the economies in which they operate. It is also managed through statistical models and data analytics for retail customers.

The assignment of credit risk ratings and setting of lending limits are an integral part of DBS' credit risk management process, and we use an array of rating models for our corporate and retail portfolios. Most of these models are built internally by DBSH using DBSH's loss data.

Wholesale borrowers are assessed individually and 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 credit scoring models, credit bureau records, as well as internally and externally available customer behaviour records supplemented by our Risk Acceptance Criteria (RAC). Credit applications are proposed by the business unit and applications outside the RAC are independently assessed by credit risk managers.

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

The Group 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 processes in place to guide handling of specific wrong-way risk transactions.

- **Concentration Risk Management**

The Group's risk management processes aim to ensure that an acceptable level of risk diversification is maintained across the Group 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 Group manages country risk as part of concentration risk management.

Transfer risk limits for priority countries are set based on country-specific strategic business considerations as well as the acceptable potential loss.

- **Environmental, Social and Governance Risk**

Responsible financing, covering Environmental, Social and Governance (ESG) issues, is a topic of increasing importance that affects investing and lending decisions across the Bank. The Bank recognises that our financing practices have an impact on society and failure of our customers to appropriately manage ESG issues can directly impact their operations and long-term economic viability, and the communities and environment in which they operate.

The Bank adopts DBSH's Responsible Financing Standard that documents the overarching approach to responsible financing and additional assessment required when entering into transactions with elevated ESG risks. The requirements of this Standard represent the minimum standards. Where significant ESG issues are identified, escalation is required to the relevant Global Industry Specialist and IBG Sustainability in DBSH for further guidance prior to approval by the Credit Approving Authority.

- **Credit Stress Testing**

The Group 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 the total portfolio or sub-portfolio level and are generally conducted to assess the impact of changing economic conditions on asset quality, earnings performance, 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 Group classifies its credit facilities as "Performing Assets" or "Non-performing assets" in accordance with HKMA's loan classification framework.

Refer to Note 2(h) for the Group's accounting policies on the impairment of financial assets. In general, impairment allowance 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 Group 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 Group takes collateral as a secondary source of repayment. This includes, but not limited to, cash, marketable securities, real estate, trade receivables, inventory, equipment, and other physical and/or financial collateral. The Group 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. The Group's collateral is generally diversified and periodic valuations of collateral are required.

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 that the Group and the counterparties have mutually agreed upon. This is 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 Group is allowed to offset what the Group owes a counterparty against what is due from that counterparty in a netting-eligible jurisdiction.

In times of difficulty, the Group will review the customer's specific situation and circumstances to assist them in restructuring their financial obligations.

Maximum exposure to credit risk

The maximum exposure to credit risk for financial assets recognised on the statement of financial position is the carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. Refer to Note 33 for the contractual amounts of each significant class of contingent liabilities and commitments.

The Group's exposures to credit risk, measured using the expected gross credit exposures that will arise upon a default of the end obligor are as shown in the unaudited disclosures required under the Banking (Disclosure) Rules.

Analysis of Collateral

Whilst the Group'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 Group'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 Group maintains collateral agreements and enters into master netting agreements with most of the counterparties for derivative transactions. The impact of netting arrangements recognised for the computation of capital adequacy ratio is shown in the unaudited disclosures required under the Banking (Disclosure) Rules.

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.

The extent to which credit exposures are covered by eligible collateral under the Banking (Capital) Rules, besides real estate, after the application of the requisite regulatory hair-cuts, is shown in the unaudited disclosures required under the Banking (Disclosure) Rules. The amount shown is a sub-set of the actual collateral arrangements entered by the Group as the Banking (Capital) Rules imposes strict

legal and operational standards before collateral can be admitted as credit risk mitigants. As a result, certain collateral arrangements which do not meet its criteria will not be included. Certain collateral types which are not permitted as credit risk mitigants for credit exposures under the Standardised Approach are also excluded. There are five broad classifications that describe the credit quality of the Group's lending portfolio including "pass" and "special mention". These classifications each encompass a range of more granular, internal credit rating grades. This mapping reference is reviewed on a regular basis. Please refer to Note 2(h) for details on impairment. Analysis of allowances for credit and other losses as at 31 December 2021 and the movement during the year are disclosed in Note 10.

Loans and advances to customers by credit quality

In HK\$ millions	Stage 1	Stage 2	Stage 3	Total
2021				
Neither past due nor impaired				
– Pass	222,336	13,789	–	236,125
– Special Mention	426	2,529	–	2,955
Past due but not impaired ^(a)	555	79	–	634
Impaired				
– Substandard	–	–	394	394
– Doubtful	–	–	2,089	2,089
– Loss	–	–	204	204
	223,317	16,397	2,687	242,401
2020				
Neither past due nor impaired				
– Pass	173,434	18,131	–	191,565
– Special Mention	43	2,258	–	2,301
Past due but not impaired ^(a)	598	164	–	762
Impaired				
– Substandard	–	–	347	347
– Doubtful	–	–	2,323	2,323
– Loss	–	–	326	326
	174,075	20,553	2,996	197,624

(a) The majority of past due but not impaired assets are classified as "Pass" in 2021 and 2020.

Impaired loans and advances to customers are individually assessed customer advances with objective evidence of impairment.

(i) Analysis of loans and advances to customers that were neither past due nor impaired by reference to the loan gradings under the HKMA guidelines

In HK\$ millions	Pass	Special mention	Total
2021			
Manufacturing	21,398	386	21,784
Building and construction	65,034	602	65,636
Housing loans	26,008	21	26,029
General commerce	41,699	1,229	42,928
Transportation, storage and communication	21,059	520	21,579
Financial institutions, investments and holding companies	9,114	56	9,170
Professionals and private individuals (except housing loans)	38,923	4	38,927
Others	12,890	137	13,027
	236,125	2,955	239,080

2020			
Manufacturing	17,300	326	17,626
Building and construction	41,589	222	41,811
Housing loans	24,253	31	24,284
General commerce	43,369	1,141	44,510
Transportation, storage and communication	16,403	330	16,733
Financial institutions, investments and holding companies	10,320	192	10,512
Professionals and private individuals (except housing loans)	30,244	–	30,244
Others	8,087	59	8,146
	191,565	2,301	193,866

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

In HK\$ millions	Past due but not impaired				Total
	Less than 1 month	1-2 months	2-3 months	More than 3 months	
2021					
Manufacturing	3	–	–	–	3
Building and construction	40	–	–	–	40
Housing loans	225	6	–	–	231
General commerce	18	8	–	–	26
Transportation, storage and communication	93	8	3	–	104
Professionals and private individuals (except housing loans)	132	13	1	–	146
Others	83	1	–	–	84
	594	36	4	–	634

2020					
Manufacturing	47	–	–	–	47
Building and construction	112	6	–	–	118
Housing loans	238	17	2	–	257
General commerce	75	4	5	–	84

In HK\$ millions	Past due but not impaired				Total
	Less than 1 month	1-2 months	2-3 months	More than 3 months	
Transportation, storage and communication	36	9	3	–	48
Professionals and private individuals (except housing loans)	162	22	1	–	185
Others	22	–	1	–	23
	692	58	12	–	762

Loans and advances to customers that were past due by more than 3 months represent individually insignificant advances which are subject to general allowances assessment.

(iii) Impaired loans and advances to customers

In HK\$ millions	2021	2020
Manufacturing	313	316
Building and construction	145	125
Housing loans	7	108
General commerce	1,732	1,960
Transportation, storage and communication	68	76
Financial institutions, investments and holding companies	–	2
Professionals and private individuals (except housing loans)	346	314
Others	76	95
	2,687	2,996

	HK\$' millions	% of gross Loans and advances to customers
2021		
Gross impaired advances	2,687	1.11
Specific allowances	(1,355)	
	1,332	
Impaired advances covered by collateral	1,092	
2020		
Gross impaired advances	2,996	1.52
Specific allowances	(1,341)	
	1,655	
Impaired advances covered by collateral	1,280	

The specific allowances were made after taking into account the value of collateral in respect of the above advances.

Analysis of specific allowances for loans and advances to customers

In HK\$ millions	As at 1 January	Net charge/ (release) to income statement	Recoveries of advances written off in previous years	Amounts written off	Exchange and other movements	As at 31 December
2021						
Manufacturing	158	46	–	(65)	–	139
Building and construction	22	2	–	(6)	–	18
General commerce	968	195	2	(138)	1	1,028
Transportation, storage and communication	50	–	–	(30)	35	55
Financial institutions, investments and holding companies	–	–	–	–	–	–
Professionals and private individuals (except housing loans)	111	152	55	(228)	–	90
Others	32	(1)	1	(7)	–	25
	1,341	394	58	(474)	36	1,355
2020						
Manufacturing	189	(27)	1	(5)	–	158
Building and construction	17	17	–	(9)	(3)	22
General commerce	904	192	1	(123)	(6)	968
Transportation, storage and communication	67	3	–	(47)	27	50
Financial institutions, investments and holding companies	–	–	–	–	–	–
Professionals and private individuals (except housing loans)	89	243	62	(283)	–	111
Others	42	18	–	(28)	–	32
	1,308	446	64	(495)	18	1,341

Analysis of general allowances for loans and advances to customers

In HK\$ millions	As at 1 January	Net charge/ (release) to income statement	As at 31 December	In HK\$ millions	As at 1 January	Net charge/ (release) to income statement	As at 31 December
2021				2020			
Manufacturing	85	(9)	76	Manufacturing	88	(3)	85
Building and construction	515	(19)	496	Building and construction	349	166	515
Housing loans	4	–	4	Housing loans	3	1	4
General commerce	376	(166)	210	General commerce	231	145	376
Transportation, storage and communication	243	180	423	Transportation, storage and communication	267	(24)	243
Financial institutions, investments and holding companies	10	(5)	5	Financial institutions, investments and holding companies	13	(3)	10
Professionals and private individuals (except housing loans)	921	(128)	793	Professionals and private individuals (except housing loans)	397	524	921
Others	77	12	89	Others	47	30	77
	2,231	(135)	2,096		1,395	836	2,231

Professionals and private individuals of the above tables include credit cards and other unsecured lending exposures.

Geographical concentration

The analysis of the Group's gross advances to customers by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies if the claim is guaranteed by a party in a country which is different from that of the counterparty.

In HK\$ millions	Loans	Trade Finance (including trade bills)	Total
As at 31 December 2021			
Hong Kong	191,653	17,036	208,689
Mainland China	15,252	6,902	22,154
Others	7,868	3,690	11,558
	214,773	27,628	242,401
As at 31 December 2020			
Hong Kong	144,124	17,900	162,024
Mainland China	17,028	8,799	25,827
Others	7,153	2,620	9,773
	168,305	29,319	197,624

Analysis of impaired advances, impairment allowances for loans and trade finance which accounted for 10% or more of the Group's gross advances to customers:

In HK\$ millions	Impaired advances to customers	Specific allowances	General allowances
As at 31 December 2021			
Hong Kong	2,234	969	1,961
Mainland China	211	153	4
As at 31 December 2020			
Hong Kong	2,498	920	2,202
Mainland China	335	282	9

(b) Market risk

The Group's exposure to market risk is categorised into:

- Trading portfolios: Arising from positions taken for (i) market-making (ii) client-facilitation and (iii) benefiting from market opportunities.
- Non-trading portfolios: Arising from (i) positions taken to manage the interest rate risk of the Group's retail and commercial banking assets and liabilities (ii) debt securities comprising of investments held for yield and/or liquidity risk management (iii) strategic stakes in entities and (iv) structural foreign exchange risk arising mainly from the Group's strategic investments which are denominated in currencies other than Hong Kong dollar.

The Group uses a variety of financial derivatives such as swaps, forwards and futures, and options for trading and hedging against market movements.

Market Risk Management

The Group's approach to market risk management comprises the following building blocks:

• Policies

The Group Market Risk Management Policy sets out the Group's overall approach towards market risk management. The Policy is supported by standards and guides, which facilitates the identification, measurement, control, monitoring and reporting of market risk in a consistent manner within the Group. They also set out the overall approach, requirements and controls governing market risk stress testing across the Group.

The criteria for determining the positions to be included in the trading book are stipulated in the Trading Book Policy Statement.

• Risk Methodologies

The Group utilises Value-at-Risk (VaR), a statistical risk measure, to estimate the potential loss from market movements. This measure uses historical simulation based on data for the previous 12 months. It assumes that historical changes in market values reflect the distribution of potential outcomes in the immediate future.

The Group limits and monitors market risk exposures using Expected Shortfall (ES) that is VaR calculated with a one-day holding period and an expected tail-loss methodology which approximates a 97.5% confidence interval. ES is supplemented by other risk control metrics such as sensitivities to risk factors and loss triggers for management action.

The Group conducts backtesting to verify the predictiveness of the VaR model. Backtesting compares VaR calculated for positions at the close of each business day with the profit and loss (P&L) that arises from those positions on the following business day. The backtesting P&L excludes fees and commissions, revenues from intra-day trading, non-daily valuation adjustments and time effects.

For backtesting, VaR at the 99% confidence interval and over a one-day holding period is used. The Group adopts the standardised approach to compute market risk regulatory capital for the trading book positions. As such, VaR backtesting does not impact our regulatory capital for market risk.

There are limitations to VaR models; for example, past changes in market risk factors may not provide accurate predictions of future market movements, and the risk arising from adverse market related events may be understated.

To monitor our vulnerability to unexpected but plausible extreme market risk related events, multiple market risk stress tests are conducted regularly. These cover trading and non-trading portfolios and follow a combination of historical and hypothetical scenarios depicting risk-factor movement.

Economic Value of Equity (EVE) and Net Interest Income (NII) variability are the key market risk metrics used to manage our assets and liabilities. EVE and NII variability measure how the economic value and earnings of the Bank change under various stress scenarios. Credit risk arising from loans and receivables is managed under the credit risk management framework. Interest rate risk in the banking book ("IRRBB") arises from mismatches in the interest rate profile of assets, liabilities and capital instruments. It includes basis risk arising from different interest rate benchmarks, interest rate repricing risk and yield curve risk. Estimating IRRBB requires the use of behavioural models and assumptions on certain parameters such as loan repayment, and duration of non-maturity deposits. We measure IRRBB on a weekly and monthly basis.

- **Processes, Systems and Reports**

Robust internal control processes and systems have been designed and implemented to support the Group's approach for market risk management. The Group reviews these control processes and systems regularly, and these reviews allow senior management to assess their effectiveness.

The day-to-day market risk monitoring, control and analysis is managed by the RMG Market and Liquidity Risk unit – an independent risk management function that reports to the Senior Risk Executive. DBS Bank Ltd provides RMG Market and Liquidity Risk with model analytics, risk infrastructure and risk report production support.

Market Risk Metrics

The trading portfolio ES is tabulated below, showing the period-end, average, high and low ES.

1 January 2021 to 31 December 2021				
In HK\$ millions	As at			
	31 December 2021	Average	High	Low
Total	5.2	5.3	7.0	3.6

1 January 2020 to 31 December 2020				
In HK\$ millions	As at			
	31 December 2020	Average	High	Low
Total	5.0	5.0	6.4	3.3

Note: ES is computed in Singapore dollars and translated into Hong Kong dollars using the prevailing exchange rates on the reporting dates for presentation purpose.

Trading portfolios' average daily ES increased by HK\$0.2 million, contributed largely by an increase in interest rate risk exposures.

Trading portfolio experienced 1 backtesting exception in 2021 which occurred in June. The backtesting exception was largely due to swings in HKD interest rates.

The key market risk drivers of the Group's non-trading portfolios are HKD and USD interest rate exposures. The Net Interest Income (NII) of the Group is assessed under various rate scenarios to determine the impact of interest rate movements on future earnings. Simulation using a 100 basis points parallel upward or downward shift in yield curves on the Group's banking book exposures. NII is estimated to increase by HK\$1,500 million and decrease by HK\$1,265 million respectively.

Equity price risk arises from the Group's strategic investments which are overseen by the Hong Kong Management Committee. The Group's equity exposures booked in its banking book portfolio as at 31 December 2021 and 2020 were not material and were held for long term investment purpose. They were reported as bank and corporate securities in Note 18 to the financial statements and are subject to the accounting and valuation policies set out in Notes 2(f) and 2(h) to the financial statements.

(c) Liquidity risk

The Group's liquidity risk arises from its obligations to honour withdrawals of deposits, repayments of borrowed funds at maturity, and commitments to extend loans to our customers.

The Group seeks to manage its liquidity in a manner that ensures that its liquidity obligations would continue to be honoured under normal as well as adverse circumstances.

Liquidity Risk Management

Liquidity Management and Funding Strategy

The Group strives to develop a diversified funding base with access to funding sources across retail and wholesale channels. In particular, the Group has continuously made inroads in growing, deepening and diversifying its deposit base, spanning retail, wealth management, corporate and institutional customers across markets that it operates in. Supplementing the deposit base, the Group continues to maintain access to wholesale channels, to support the growth of its investor base, as well as to increase flexibility and manage funding cost in capitalising on business opportunities.

In deploying the funds, the Group aims to predominantly fund its lending activities via customer deposits and borrowings. In the event where market conditions lead to insufficient or prohibitively expensive customer funding, flexibility is maintained to fund lending growth with duration matched wholesale funding. With increasing diversification of funding sources, optimising the mismatch in fund deployments against sources with respect to pricing, size, currency and tenor remains challenging. To this end, where practicable and transferable without loss in value, the Group makes appropriate use of swap markets for relevant currencies, commensurate with the liquidity of each, in the conversion and deployment of surplus funds.

The Assets and Liabilities Committee regularly reviews the composition and growth trajectories of the balance sheet and refine our funding strategy according to business momentum, competitive factors and prevailing market conditions.

Approach to Liquidity Risk Management

The Group's approach to liquidity risk management comprises the following building blocks:

- **Policies**

The Group Liquidity Risk Management Policy sets out the Group's overall approach towards liquidity risk management and describes the range of strategies employed by the Group to manage its liquidity. These strategies include maintaining an adequate counterbalancing capacity to address potential cash flow shortfalls and having diversified sources of liquidity. The Group's counterbalancing capacity includes liquid assets and the capacity to borrow from the money markets as well as forms of managerial interventions that improve liquidity. In the event of a potential or actual crisis, the Group has in place a set of liquidity contingency and recovery plans to ensure that we maintain adequate liquidity.

The Policy is supported by Standards that establish the detailed requirements for liquidity risk identification, measurement, reporting and control within the Group. The set of policies, standards and supporting guides communicate these baseline requirements to ensure consistent application throughout the Group.

- **Risk Methodologies**

The primary measure used to manage liquidity within the tolerance defined by the Board is the cash flow maturity mismatch analysis. This form of 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. To ensure that liquidity is managed in line with the Risk Appetite, core parameters such as the types of scenarios, the survival period and the minimum level of liquid assets, are pre-specified for monitoring and control at the Group. Any occurrences of forecasted shortfalls that cannot be covered by the counterbalancing capacity will be escalated to the relevant committees for evaluation and action.

Liquidity risk testing is performed regularly using cash flow maturity mismatch analysis, and covers adverse scenarios including general market and idiosyncratic stress scenarios. Stress tests assess the Group's vulnerability when liability run-offs increase, asset rollovers increase and / or liquid assets buffer reduces. In addition, ad-hoc stress tests are performed as part of the Group's internal capital adequacy assessment process.

Liquidity risk control measures, such as liquidity-related ratios and balance sheet analysis are complementary tools to the cash flow maturity mismatch analysis, and they are performed regularly to obtain deeper insights and finer control over the liquidity profile across the Group. The liquidity risk control measures also include loan to deposit ratio, concentration measures on top depositors, wholesale borrowing ratios and swapped funds positions.

- **Processes, Systems and Reports**

Robust internal control processes and systems support our overall approach for identifying, measuring, aggregating, controlling and monitoring liquidity risk across the Group.

Continuous improvement in data and reporting platforms has allowed most elements of internal liquidity risk reporting to be centralised.

The day-to-day liquidity risk monitoring, control, reporting and analysis are managed by the RMG Market and Liquidity Risk unit – an independent risk management function that reports to the Senior Risk Executive.

Liquidity Risk Metrics

The table below analyses assets and liabilities of the Group as at 31 December based on the remaining period as at the end of the reporting period to the contractual maturity dates:

In HK\$ millions	Repayable on demand	Less than 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
2021								
Assets								
– Cash and balances with central banks	5,501	–	–	–	–	–	46	5,547
– Government securities and treasury bills, classified as								
– FVPL	–	300	1,961	400	420	1,243	–	4,324
– FVOCI	–	6,690	8,773	2,252	4,371	3,102	–	25,188
– Amortised cost	–	–	–	–	5,558	3,486	–	9,044
– Due from banks	4,580	87,902	1,341	5,303	44,802	–	–	143,928
– Bank and corporate securities								
– Debt securities classified as FVPL	–	–	–	–	764	–	–	764
– Debt securities classified as FVOCI	–	537	1,005	521	3,432	385	–	5,880
– Debt securities classified as amortised cost	–	–	–	–	3,994	204	–	4,198
– Equity securities	–	–	–	–	–	–	290	290
– Loans and advances to customers	6,073	65,001	22,802	31,304	80,681	31,758	1,331	238,950
– Others	107	3,565	725	301	346	1,766	2,885	9,695
Total assets	16,261	163,995	36,607	40,081	144,368	41,944	4,552	447,808
Liabilities								
– Due to banks	3,955	2,964	1,000	8	–	–	–	7,927
– Deposits and balances from customers	309,071	24,042	25,865	14,819	136	–	–	373,933
– Certificates of deposit issued	–	–	–	–	–	–	–	–
– Subordinated liability	–	–	–	4,211	–	–	–	4,211
– Lease liabilities	21	–	44	191	829	907	–	1,992
– Others	1,585	7,627	2,610	637	1,120	549	2,575	16,703
Total liabilities	314,632	34,633	29,519	19,866	2,085	1,456	2,575	404,766

In HK\$ millions	Repayable on demand	Less than 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
2020								
Assets								
– Cash and balances with central banks	27,416	–	–	–	–	–	49	27,465
– Government securities and treasury bills, classified as								
– FVPL	–	551	–	100	293	1,204	–	2,148
– FVOCI	–	5,229	12,179	624	984	2,345	–	21,361
– Amortised cost	–	–	–	–	6,190	3,016	–	9,206
– Due from banks	4,823	92,172	1,069	20,365	88,628	–	–	207,057
– Bank and corporate securities								
– Debt securities classified as FVPL	–	–	–	–	–	–	–	–
– Debt securities classified as FVOCI	–	–	560	2,338	5,390	331	–	8,619
– Debt securities classified as amortised cost	–	–	–	–	1,831	534	–	2,365
– Equity securities	–	–	–	–	–	–	256	256
– Loans and advances to customers	7,031	42,879	23,670	24,823	62,554	31,440	1,655	194,052
– Others	141	4,138	867	474	541	1,918	3,551	11,630
Total assets	39,411	144,969	38,345	48,724	166,411	40,788	5,511	484,159
Liabilities								
– Due to banks	2,721	4,162	8,915	8	–	–	–	15,806
– Deposits and balances from customers	325,713	33,561	35,869	9,658	–	–	–	404,801
– Certificates of deposit issued	–	–	2,215	–	–	–	–	2,215
– Subordinated liability	–	–	–	–	4,186	–	–	4,186
– Lease liabilities	–	21	45	193	867	1,082	–	2,208
– Others	1,043	6,034	1,190	370	901	602	2,993	13,133
Total liabilities	329,477	43,778	48,234	10,229	5,954	1,684	2,993	442,349

The above tables indicate disclosure of contractual maturity of financial liabilities, which approximate the same analysis on an undiscounted basis as total future interest payments are not material relative to the principal amounts. Derivative assets and liabilities are included in “less than 1 month” bucket as they are mainly held for trading.

Lease liabilities in 2021 and 2020 are included in other liabilities and predominantly to be matured over 5 years.

The table below shows the contractual undiscounted cash flows for derivatives, contingent liabilities and commitments.

In HK\$ millions	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
2021						
Derivatives settled on a net basis	–	39	68	(544)	4	(433)
Derivatives settled on a gross basis						
– Inflow	–	49,176	32,072	16,257	3,537	101,042
– Outflow	–	(48,990)	(32,024)	(15,602)	(3,226)	(99,842)
Contingent liabilities and commitments						
– Contingent liabilities	–	12,947	–	–	–	12,947
– Commitments	77,406	116,520	–	–	–	193,926
	77,406	129,467	–	–	–	206,873

In HK\$ millions	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
2020						
Derivatives settled on a net basis	–	3	(27)	(84)	(16)	(124)
Derivatives settled on a gross basis						
– Inflow	–	60,639	24,035	21,080	2,962	108,716
– Outflow	–	(60,310)	(23,880)	(20,896)	(2,798)	(107,884)
Contingent liabilities and commitments						
– Contingent liabilities	–	14,733	–	–	–	14,733
– Commitments	77,998	99,479	–	–	–	177,477
	77,998	114,212	–	–	–	192,210

The Group actively monitors and manages its liquidity profile based on the cash flow maturity mismatch analysis.

In forecasting the cash flow under the analysis, behavioural profiling is necessary in cases where a product has indeterminate maturity or the contractual maturity does not realistically reflect the expected cash flow. Two examples are maturity-indeterminate savings and current account deposits which are generally viewed as sources of stable funding for commercial banks. In fact, they consistently exhibit stability even under historic periods of stress.

A conservative view is adopted in the Group's behavioural profiling of assets, liabilities and off-balance sheet commitments that have exhibited cash flow patterns that differ significantly from the contractual maturity profile shown in this note.

The table below shows the Group's behavioural net and cumulative maturity mismatch between assets and liabilities over a one-year period in normal scenario without incorporating growth projections. The Group's liquidity is observed to remain adequate under the maturity mismatch analysis, amidst loan growth supported by operating liquidity.

In HK\$ millions ⁽ⁱ⁾	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months
2021				
Net liquidity mismatch	45,068	26,272	(5,592)	11,977
Cumulative mismatch	45,068	71,340	65,747	77,724
2020⁽ⁱⁱ⁾				
Net liquidity mismatch	35,218	34,889	(3,225)	28,939
Cumulative mismatch	35,218	70,107	66,882	95,820

(i) Positive indicates a position of liquidity surplus. Negative indicates a liquidity shortfall that has to be funded. The Group's liquidity is monitored on a cumulative mismatch basis.

(ii) As the behavioural assumptions used to determine the maturity mismatch between assets and liabilities are updated from time to time, the information presented above may not be directly comparable across past balance sheet dates.

(d) Operational risk

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

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

Operational Risk Management

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

- **Policies**

The Group 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 across the Group. 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 terrorism and sanctions, new product and outsourcing.

- **Risk Methodologies**

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

To manage and control operational risk, we use various tools including risk and control self-assessment, operational risk event management and key risk indicator monitoring.

The Group's three lines of defence adopt one common risk taxonomy, and a consistent risk assessment approach to managing operational risk. 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 Group'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. It covers risk identification, assessment, mitigation, monitoring and reporting. In addition, the appropriate governance, IT policies and standards, control processes and risk mitigation programmes are in place to support the risk management approach.

Similarly, cybersecurity risk is managed through the same enterprise risk management approach. It cuts across all lines of business, and it takes a collective team effort to proactively address cybersecurity threats. Since January 2019, we have established a one stop competency centre for all cybersecurity related matters and drive deep collaboration with the management of many other types of risks including operational risks and data protection/data privacy risks.

Compliance risk

Compliance risk refers to the risk of the Group 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. We maintain 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 Group 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 Group 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 Group.

Money laundering, financing of terrorism and sanctions risks

There are minimum standards for our 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 Group's assets and reputation, as well as the interests of our customers and shareholders.

New product and outsourcing and ecosystem partnership risks

Each new product, service or outsourcing arrangement or ecosystem partnership is subject to a risk review and sign-off process, where relevant risks are identified and assessed. Variations of existing products or services and existing outsourcing arrangements and ecosystem partnerships are also subject to a similar process.

Other mitigation programmes

A robust business continuity management programme is in place to ensure that essential banking services can continue in the event of unforeseen events or business disruptions. This includes a crisis management plan to enable quick response to manage incidents.

Exercises are conducted annually, simulating different scenarios to test business continuity plans and crisis management protocol. The effectiveness of these exercises, as well as the Group's business continuity readiness are communicated and attested by senior management to the BRMC on an annual basis.

To mitigate losses from specific risk events which are unexpected and significant, the Group purchases group-wide insurance policies – under the Group Insurance Programme. These include policies relating to crime and professional indemnity, directors and officers liability, cyber risk, 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,
- Report and/or escalate key operational risks to risk committees with recommendations on appropriate risk mitigation strategies.

The Group implemented an integrated governance, risk and compliance system with aligned risk assessment methodology, common taxonomy, and unified processes for the three lines of defence.

(e) Capital management

The Board of Directors (the "Board") is responsible for setting our capital management objective, which is to maintain a strong capital position consistent with requirements of the Hong Kong Monetary Authority ("HKMA") and the expectations of various stakeholders including customers, investors and rating agencies. The Board articulates this objective in the form of capital targets. This objective is pursued while delivering returns to shareholders and ensuring that adequate capital resources are available for business growth and adverse situations, taking into consideration our strategic plans and risk appetite.

The Banking Ordinance and the Banking (Capital) Rules set out the minimum capital adequacy ratios and leverage ratio for an authorised institution incorporated in Hong Kong and the methodology for calculating these ratios.

The Bank is required to compute its capital adequacy ratios and leverage ratio on a combined basis that includes the Bank and its overseas branch. The Bank complied with the capital adequacy requirements of the HKMA throughout 2021 and 2020.

38 MATERIAL RELATED PARTY TRANSACTIONS

(a) Holding companies and fellow subsidiaries

The Group's immediate holding company is DBS Diamond Holdings Ltd. and the ultimate holding company is DBSH. DBS Bank Ltd. is an intermediate holding company of the Group.

As part of the Group's normal course of business, it enters into various transactions with holding companies and fellow subsidiaries on normal commercial terms. These transactions include interbank placements, sales and purchase of loans and advances to customers, taking of deposits, financial derivatives, contingent liabilities and commitments.

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

During the financial year, the Group acquired a portfolio of loans and advances to customers of HK\$27.8 billion (2020: HK\$25.1 billion) and undrawn commitment of HK\$6.8 billion (2020: HK\$6.0 billion) from DBS Bank Ltd., HK Branch through direct purchase and funded risk participation. These transactions were conducted on an arm's length basis.

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 holding companies and fellow subsidiaries

In HK\$ millions	DBS Group Holdings Ltd		DBS Bank Ltd		Fellow subsidiaries	
	2021	2020	2021	2020	2021	2020
Interest income	-	-	1,372	3,851	26	44
Interest expense	(76)	(100)	(33)	(66)	(1)	(3)
Net fee and commission income/(expense)	-	-	217	130	(27)	(29)
Net trading profit/(loss)	-	-	2	12	26	(12)
Other income	-	-	43	41	8	8
Total expenses recovered	-	-	13	26	54	54

(ii) Balances with DBS Bank Ltd as at 31 December

In HK\$ millions	2021	2020
Assets		
Due from banks	120,829	192,402
Derivatives	501	819
Other assets	427	919
	121,757	194,140
Liabilities		
Due to banks	5,137	13,500
Derivatives	1,455	1,462
Other liabilities	139	174
	6,731	15,136

(iii) Contract / notional amounts of financial derivatives with DBS Bank Ltd and fellow subsidiaries as at 31 December

In HK\$ millions	2021	2020
Foreign exchange contracts	93,088	97,869
Interest rate contracts	60,226	25,843
Equity contracts	1,291	640
Credit contracts	365	4,311
Commodity contracts	158	-
	155,128	128,663

(iv) Contingent liabilities and commitments with DBS Bank Ltd and fellow subsidiaries

As at 31 December 2021, total contingent liabilities and commitments with DBS Bank Ltd and fellow subsidiaries amounted to HK\$816 million (2020: HK\$2,512 million).

(v) Balances with immediate holding company and other intermediate holding companies as at 31 December

In HK\$ millions	2021	2020
Other liabilities	1,500	-

(vi) Balances with DBS Group Holdings Ltd as at 31 December

In HK\$ millions	2021	2020
Liabilities		
Subordinated liability	4,211	4,186
Other liabilities	9	4
	4,220	4,190

(vii) Balances with fellow subsidiaries as at 31 December

In HK\$ millions	2021	2020
Assets		
Due from banks	5	7
Bank and corporate securities	752	-
Derivatives	1	-
Other assets	151	407
	909	414
Liabilities		
Due to banks	171	137
Deposits and balances from customers	601	635
Derivatives	3	13
Other liabilities	174	526
	949	1,311

(b) Directors and key management personnel

(i) Transactions and balances with directors and key management personnel

For the year ended 31 December 2021 and 2020, the Group had banking and non-banking transactions with directors of the Bank and DBSH Group and key management personnel of the Bank and their close family members. These transactions, including the taking of deposit and extension of credit card and other loan facilities, were made in the ordinary course of business and on commercial terms, and were not material.

(ii) Compensation of directors and key management personnel

In HK\$ millions	2021	2020
Salaries, other short term employee benefits and directors' fee (Note)	95	84
Pension	3	3
Share-based compensation	24	25
	122	112

Note:

The directors' fees if any, are payable in 2022 to eligible persons who acted as directors of the Bank during the year ended 31 December 2021. Such fees are subject to the approval of the shareholders of the Bank.

The amount included cash bonus accrued during the year, to be paid in the following year. Such cash bonus is subject to the approval of DBSH's Board of Directors.

39 LOAN TO DIRECTOR AND ENTITY CONNECTED WITH DIRECTOR

No material loan to director of the Bank and entity connected with director subsisted during the year.

40 SHARE BASED COMPENSATION PLANS

As part of the Group's remuneration policy, the Group provides various share-based compensation plans to foster a culture that aligns employees' interests with shareholders', enable employees to share in the Bank's performance and enhance talent retention.

Main Scheme/ Plan**DBSH Share Plan (Share Plan)**

- The Share Plan is granted to Group executives as determined by the Committee appointed to administer the Share Plan from time to time.
- Participants are awarded shares of the Company or, at the Committee's discretion, their equivalent cash value or a combination.
- Awards consist of main award and retention award (20%/15% of main award) for employees on bonus/sales incentives plans respectively. Dividends on unvested shares do not accrue to employees.
- For employees on bonus plan, the main award vests from 2 to 4 years after grant i.e. 33% will vest 2 years after grant; another 33% will vest on the third year and the remaining 34% plus the retention award will vest 4 years after grant.
- For employees on sales incentives plans, the main award vests from 1 to 3 years after grant; i.e. 33% will vest 1 year after grant, another 33% will vest on the second year and the remaining 34% plus the retention award will vest 3 years after grant.
- There are no additional retention awards for shares granted to top performers and key employees as part of talent retention.
- The awards will lapse immediately upon termination of employment, except in the event of ill health, injury, disability, redundancy, retirement or death. The fair value of the shares granted include an adjustment to exclude the present value of future expected dividends to be paid during the vesting period.
- The market price of shares on the grant date is used to estimate the fair value of the shares awarded.

- Vested and unvested shares are subject to clawback/malus. Conditions that trigger such clawback/malus are in the Corporate Governance section of the Annual Report.
- Shares are awarded to non-executive directors as part of director's remuneration. Details of these awards are disclosed in the Corporate Governance section of DBSH's Annual Report.

DBSH Employee Share Plan (ESP)

- The Committee has ceased granting shares under the ESP effective from financial year 2018 remuneration. Shares granted from prior years continue to be outstanding until the shares are fully vested.

DBSH Employee Share Purchase Plan (ESPP)

- The ESPP was implemented in 2019. All confirmed permanent employees who hold the rank of Vice President or below with at least 3 months of service are eligible to participate in the scheme.
- The ESPP is a savings-based share ownership plan to help eligible employees to own DBSH shares through monthly contributions via deductions from payroll or designated bank accounts.
- Participants contribute up to 10% of monthly salary (minimum S\$50, capped at S\$1,000) and the Group will match 25% of the participant's contributions to buy DBSH ordinary shares for a period of 12 months during each plan year.
- The matching shares bought from the Group's contribution will vest 24 months after the last contribution month for each plan year.
- The matching shares will lapse immediately upon termination of employment, except in the event of ill health, injury, disability, redundancy, retirement or death.

The following table sets out the outstanding awards at the end of each reporting period and the movement during the year:

Number of shares	Share Plan	ESP	ESPP
At 1 January 2021	1,567,925	92,215	132,366
Granted	650,611	–	66,930
Transfer	(78,465)	478	784
Vested	(440,472)	(64,924)	(4,928)
Forfeited	(116,125)	(2,431)	(17,040)
At 31 December 2021	1,583,474	25,338	178,112
Weighted average fair value of the shares granted during the year ^(a)	SG\$21.32	–	SG\$26.04
At 1 January 2020	1,429,837	209,704	49,563
Granted	637,145	–	89,565
Transfer	15,854	312	(130)
Vested	(463,031)	(112,269)	(1,708)
Forfeited	(51,880)	(5,532)	(4,924)
At 31 December 2020	1,567,925	92,215	132,366
Weighted average fair value of the shares granted during the year ^(a)	SG\$21.42	–	SG\$18.55

Since the inception of the Share Plan and ESP, no awards have been cash-settled.

(a) The fair value of the shares granted in 2021 and 2020 includes a deduction of the present value of future expected dividends to be paid during the vesting period

41 SUBSEQUENT EVENTS

On 13 January 2022, the Bank redeemed its 140 non-cumulative Class A preference shares from DBSH for a consideration of HK\$1,400 million and the preference shares were cancelled upon the redemption.

On the same date, the Bank issued Perpetual Capital Securities ("PCS") of HK\$1,400 million to its parent holding company, DBSH. Distributions are payable annually at the rate of 2.86% per annum

at the discretion of the Bank. The PCS are redeemable on 13 January 2027 or any date thereafter. The terms require the PCS to be written off if and when the HKMA notifies the Bank that a write-off, or a public sector injection of capital (or equivalent support), is necessary, without which the Bank would become non-viable. In addition, the holder of the PCS is subject to the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority. The PCS qualify as Additional Tier 1 capital of the Bank under the Banking (Capital) Rules made by the HKMA.

42 BANK LEVEL STATEMENT OF FINANCIAL POSITION

In HK\$ millions	Note	As at 31 December	
		2021	2020
Assets			
Cash and balances with central banks		5,547	27,465
Government securities and treasury bills		38,556	32,715
Due from banks		143,928	207,057
Derivatives		1,388	1,627
Bank and corporate securities		11,132	11,240
Loans and advances to customers		238,950	194,052
Other assets		4,075	5,505
Subsidiaries		43	44
Properties and other fixed assets		4,064	4,330
Total assets		447,683	484,035
Liabilities			
Due to banks		7,927	15,806
Deposits and balances from customers		373,948	404,816
Derivatives		1,754	1,625
Certificates of deposit issued		–	2,215
Other liabilities		16,941	13,716
Amounts due to subsidiaries		59	60
Subordinated liability		4,211	4,186
Total liabilities		404,840	442,424
Equity			
Share capital		8,995	8,995
Reserves	29(b)	33,848	32,616
Total equity		42,843	41,611
Total liabilities and equity		447,683	484,035

Nancy Sau Ling Tse
Director

J.E. Sebastian Paredes Muirragui
Director

DBS Bank (Hong Kong) Limited and its Subsidiaries

CORPORATE GOVERNANCE REPORT (unaudited)

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

1 BOARD AND BOARD COMMITTEES

DBS Bank (Hong Kong) Limited (the "Bank") is fully committed to effective corporate governance in order to ensure its proper functioning and protect the interests of all the Bank's stakeholders. The Bank is subject to, and during the year has complied, in all material aspects, with the guidelines set out in the HKMA Supervisory Policy Manual CG-1 Corporate Governance of Locally Incorporated Authorized Institutions.

The Board of Directors of the Bank (the "Board") directs the Bank in the conduct of its affairs and ensures that corporate responsibility and ethical standards underpin the conduct of the Bank's business. The Board provides sound leadership to the Management in setting the strategic vision, direction and long-term goals of the Bank as well as ensuring that adequate resources are available to meet these objectives and there is appropriate balance between promoting long-term growth and delivering short-term financial gains. The Board bears the ultimate responsibility for the Bank's governance, strategy, risk management, financial performance and key personnel decisions.

To discharge its stewardship and responsibilities in specific areas, the Board may delegate authority to specialized Board committees to more efficiently and effectively contribute to the strategic and operational development of the Bank. The composition, roles and functions of the Board committees of the Bank are set out below.

(a) Board Audit Committee

The Board Audit Committee (the "BAC") comprises five directors. All of the members of the BAC, including its Chairman, are non-executive directors ("NED"). A majority (four out of five) of the members of the BAC, including its Chairman, are independent non-executive directors ("INED") of the Bank. All members of the BAC are highly experienced in financial and internal control management; most with expertise in audit practices, financial reporting and accounting. The BAC held four meetings during the year ended 31 December 2021.

BAC members for the year ended 31 December 2021	
Mr. Dominic Chiu Fai HO (Chairman)	INED
Mr. SEAH Lim Huat, Peter	NED
Mr. HO Hing Yuen, David	INED
Ms. Nancy Sau Ling TSE	INED
Mr. LIU Chee Ming	INED
Mr. Ho Hing Yuen, David replaced Mr. KWOK Kwok Chuen to be a member of the BAC with effect from 17 January 2021. Mr. LIU Chee Ming was appointed to be a member of the BAC with effect from 9 March 2021.	

The key responsibilities of the BAC include:

- monitoring the financial reporting process;
- reviewing the Bank's financial statements prior to submission to the Board for approval;
- overseeing and interacting with the internal and external auditors;

- making recommendations to the Board on the proposals to shareholders on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- approving the appointment, removal and remuneration of the Head of Internal Audit;
- reviewing the adequacy and effectiveness of the internal audit function and processes;
- reviewing the independence and objectivity of the external auditor;
- approving the internal and external auditor's audit plans and audit reports;
- ensuring that any observations of internal or external auditors regarding internal control weaknesses or deficiencies are promptly communicated to the BAC and rectified by Management of the Bank; and
- reviewing the adequacy and effectiveness of the Bank's internal controls, such as financial, operational, compliance and information technology controls, as well as accounting policies and systems.

(b) Board Risk Management Committee

The Board Risk Management Committee (the "BRMC") comprises five directors. All of the members of the BRMC, including its Chairman, are NED. A majority (three out of five) of the members of the BRMC, including its Chairman, are INED of the Bank. The BRMC members are appropriately qualified to discharge their responsibilities with extensive experience in risk management issues and practices. The BRMC held four meetings during the year ended 31 December 2021.

BRMC members for the year ended 31 December 2021	
Ms. Nancy Sau Ling TSE (Chairman)	INED
Mr. SEAH Lim Huat, Peter	NED
Mr. Piyush GUPTA	NED
Mr. Dominic Chiu Fai HO	INED
Mr. HO Hing Yuen, David	INED

The BRMC has oversight of the Bank's risk governance, risk approaches and risk limits of the Bank to ensure that all risks are effectively managed within the Bank's overall risk governance framework. The BRMC also has oversight of the culture and behavioural standards that promote prudent risk taking and fair treatment of customers and ensure the effectiveness of initiatives designed to influence culture in alignment with the Bank's culture standards. In particular, the principal duties of the BRMC include:

- reviewing and recommending for the Board's approval the key risk policies and risk appetite statement setting out the Bank's risk strategies as well as specific risks relevant to the Bank, such as credit, market, liquidity, operational and reputational risks;
- approving the Bank's overall and specific risk governance frameworks, risk authority limits and major risk policies as delegated by the Board;
- approving risk exposures and profile against risk limits and risk strategy in accordance with approved risk appetite and/or guidelines;
- monitoring the quarterly portfolio reviews of total exposures as well as large exposures and asset quality;

- discussing large risk events and subsequent remedial action plans;
- monitoring market developments, such as macro-economic, credit, industry, country risk and stress tests related to these developments;
- overseeing the independence and adequacy of the risk management function;
- overseeing the implementation of plans to meet regulatory requirements relating to risk management;
- overseeing the Internal Capital Adequacy Assessment Process, including approving stress scenarios and commensurate results for capital, risk-weighted assets, profit and loss and liquidity;
- obtaining assurance on the sufficiency of the information systems, infrastructure, resources and systems for risk management;
- assessing the risks inherent in new products and services to be launched and approving the new product approval policy;
- reviewing and recommending the effectiveness of culture and behavioural standards to the Board; and
- approving the relevant statements and reports related to the risk culture.

The BRMC supervises the Bank's risk management and risk culture in accordance with the overall risk appetite established by the Board. This risk appetite framework guides Management in the pursuit of the Bank's strategy and business plans and is encapsulated in a formal risk appetite statement which considers capital adequacy, earnings volatility and the various risk types including but not limited to credit risk, country risk, market risk, liquidity risk, operational risk and reputational risk. Risk appetite takes into account potential impact arising from stressed conditions and concentration risk. Portfolio risk limits for the quantifiable risk types are established through a top-down approach and operationalised through a formal framework. Other significant risk aspects are guided by qualitative expression of principles. The risk appetite framework is reviewed annually.

(c) Board Nomination and Remuneration Committee

The Board Nomination and Remuneration Committee (the "BNRC") comprises three directors. All of the members of the BNRC, including its Chairman, are NED. A majority (two out of three) of the members of the BNRC, including its Chairman, are INED of the Bank. The BNRC members are appropriately qualified to discharge their responsibilities with relevant expertise and skills. The BNRC held one meeting during the year ended 31 December 2021.

BNRC members for the year ended 31 December 2021	
Mr. LIU Chee Ming (Chairman)	INED
Mr. SEAH Lim Huat, Peter	NED
Ms. Nancy Sau Ling TSE	INED
Ms. Nancy Sau Ling TSE replaced Mr. KWOK Kwok Chuen to be a member of the BNRC with effect from 17 January 2021	

The BNRC oversees the overall remuneration policy of the Bank. It also identifies and nominates suitable individuals to become directors and senior management of the Bank and make recommendations to the Board for their appointment, reappointment and succession planning; and conducts evaluation

on members of the Board. The key responsibilities of the BNRC include:

- reviewing and approving the remuneration policy applicable to the employees of the Bank;
- approving the remuneration packages and any subsequent adjustments of senior management and other key personnel;
- identifying and selecting fit and proper qualified candidates for appointment to the Board and Board committees;
- reviewing nominations for appointments and reasons for resignation or dismissal of senior management;
- making recommendation to the Board on the selection of nominated candidates for directorships and senior management positions and on the re-appointment of directors or succession planning of directors and chief executive officer;
- assessing the performance and effectiveness of the Board and Board committees;
- reviewing regularly the structure, size and composition (including skills, knowledge and experience of members) of the Board and Board committees; and
- determining the independence of the INED in accordance with the regulatory guidelines and other relevant factors.

2 SENIOR MANAGEMENT AND MANAGEMENT COMMITTEES

Senior Management of the Bank consists of a group of highly competent and experienced individuals responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank in accordance with the business strategy, risk appetite and policies approved by the Board. Specialised Management committees are established to oversee and implement business strategies, risk management systems and internal controls. The roles, functions and composition of each of the Management committees are set out below.

(a) Hong Kong Management Committee

The Hong Kong Management Committee (the "HKMC") is responsible for formulating and implementing DBS Group's strategy for Hong Kong, as well as the financial and non-financial results of DBS Group's activities in this geographic segment. It provides leadership to the various business and support units in Hong Kong with a view to ensure sound and effective governance while achieving the targeted financial returns. Towards this end, the HKMC prioritises business development initiatives and support infrastructure projects necessary to underpin robust growth and allocates capital within the context of DBS Group's strategy. The HKMC is also responsible for ensuring that policies and practices are in place to maintain high standards of corporate governance, risk management and compliance in Hong Kong. Chaired by the Hong Kong Head of DBS, the HKMC comprises senior management staff in Hong Kong.

(b) Hong Kong Risk Executive Committee

The Hong Kong Risk Executive Committee provides oversight of all risk types (including those without an underlying risk committee oversight), interactions between risk types and cross-risk stress testing for major downside risk. It reviews, from a risk perspective, existing and new business proposals and establishes overall local risk architecture direction and determine reporting requirements in line with those established by DBS Group. It also monitors the Bank's risk profiles, as well as the market and regulatory

developments; and oversees the establishment of risk controls and measurement tools, the non-financial compliance matters and financial crime related matters. The Hong Kong Risk Executive Committee comprises the CEO of the Bank, the Senior Risk Executive of Hong Kong and representatives from key business units and support units.

(c) Hong Kong Asset and Liability Committee

The Hong Kong Asset and Liability Committee oversees strategies to enhance the quality of net interest income, liquidity management and structural foreign exchange management for Hong Kong. The Hong Kong Asset and Liability Committee also oversees the capital management and planning process and review the Bank's capital position and adequacy. The Hong Kong Asset and Liability Committee comprises the CEO of the Bank and representatives from the relevant business units and support units.

(d) Hong Kong Credit Risk Committee

The Hong Kong Credit Risk Committee serves as an executive forum for discussions and decisions pertaining to credit risk and its management. It assesses credit risk taking, and reviews and monitors credit risk portfolio, special loan and asset review situations, credit systems, specific credit concentrations and trends, key policy deviations, macroeconomic trends with material impact to the Bank. The Hong Kong Credit Risk Committee exercises active oversight on credit risk related regulatory developments, the use of internal rating systems and ensure the continuing appropriateness of stress testing. The Hong Kong Credit Risk Committee comprises the Credit Head of the Bank and representatives from relevant business units, credit, risk management and other support units.

(e) Hong Kong Market and Liquidity Risk Committee

The Hong Kong Market and Liquidity Risk Committee provides comprehensive and bank-wide oversight of all market and liquidity risks and their management in trading and banking books. It serves as an executive forum for discussions and decisions on all aspects of market and liquidity risks and their management. It maintains oversight on effectiveness of market and liquidity risk management framework including policies, models, people, systems, processes, information and methodologies. It sets standards and provides necessary guidance on the establishment and maintenance of the bank-wide liquidity contingency plan. The Hong Kong Market and Liquidity Risk Committee comprises the Market & Liquidity Risk Head of the Bank and representatives from risk management and other relevant business units and support units.

(f) Hong Kong Operational Risk Committee

The Hong Kong Operational Risk Committee provides comprehensive location-wide oversight and direction relating to the management of operational risk. It monitors and reviews the effectiveness of operational risk management, policies, processes, methodologies and infrastructure. It performs top-down assessment and monitors critical operational risk exposures and provides direction for resolution of critical operational risk issues and monitors issue resolution. The Hong Kong Operational Risk Committee comprises the Head of Risk Management Group – Operational Risk, and representatives from key business units and support units.

(g) Hong Kong Risk Culture and Conduct Committee

The Hong Kong Risk Culture and Conduct Committee (“HKRCCC”) provides location-wide oversight and direction relating to the management and implementation of the risk culture and conduct agenda. It oversees and monitors the culture and behavioural standards across the Bank and approves the culture enhancement initiatives and plans of the Bank. Chaired by the Hong Kong Head of DBS, the HKRCCC comprises heads of key business units and support units.

(h) Hong Kong Product Oversight Committee

The Hong Kong Product Oversight Committee provides country oversight over the risks associated with new products in Hong Kong. It provides holistic overview of such risks to ensure new products are offered in line with the bank's strategy and risk appetite, in the interest of protecting the bank's franchise. The Hong Kong Product Oversight Committee comprises the Senior Risk Executive of Hong Kong and representatives from key business units and support units.

3 DISCLOSURE ON REMUNERATION PURSUANT TO THE HKMA SUPERVISORY POLICY MANUAL CG-5 “GUIDELINE ON A SOUND REMUNERATION SYSTEM”

(a) Design and implementation of the remuneration system

The Bank adopts the remuneration policy and practices formulated by DBSH. Please refer to the Annual Report of DBSH for major characteristics of the remuneration system.

(b) Aggregate quantitative information on remuneration for senior management and key personnel for the year ended 31 December 2021 are as follows:

Senior management is defined as those who are responsible for oversight of the Bank's strategy or activities or those of the Bank's material business lines. Key personnel is defined as individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Bank.

Breakdown of remuneration awarded ⁽ⁱ⁾	2021	2020
Number of senior management	15	14
Number of key personnel	23	18
In HK\$ millions		
Fixed remuneration		
• Cash based (non-deferred)	92	82
• Share based	–	–
• Other	–	–
Variable remuneration ⁽ⁱⁱ⁾		
• Cash based (non-deferred)	89	66
• Share based (deferred)	59	29
• Other	–	–
	240	177

In HK\$ millions		
Breakdown of deferred remuneration	2021	2020
• Outstanding – vested	–	–
• Outstanding – unvested	152	120
• Awarded during the year	59	29
• Paid out during the year	33	41
• Reductions in current year due to ex-post adjustment – explicit ⁽ⁱⁱⁱ⁾	–	–
• Reductions in current year due to ex-post adjustment – implicit ^(iv)	–	(3)

(i) Remuneration figures for senior management and key personnel are aggregated due to data confidentiality.

(ii) Cash and share based variable remuneration are subject to the approval of the DBSH Board of Directors.

(iii) Examples of explicit ex-post adjustments include malus, clawbacks, or similar reversals or downward revaluation of awards.

(iv) Examples of implicit ex-post adjustments include fluctuations in the value of shares or performance units.

No senior management or key personnel has been awarded with new guaranteed bonus or severance payments in 2021 (2020: Nil).

No severance payment being paid to senior management or key personnel (2020: Nil).

In 2021, there was one case of sign-on award being paid to senior management or key personnel which amount to HK\$1,186,559 (2020: HK\$520,294).

4 INTERNAL AUDIT

Internal Audit is independent of the activities it audits. Its objectives, scope of authority and responsibilities are defined in the Hong Kong Audit Charter, which is approved by the BAC. Head of Internal Audit reports functionally to the Head of Group Audit and the Chairperson of BAC, as well as administratively to the CEO.

Internal Audit's responsibilities include:

- (i) Evaluating the reliability, adequacy and effectiveness of the Bank's system of internal controls, risk management, governance framework and processes;
- (ii) Providing an objective and independent assessment of the Bank's credit portfolio quality, the execution of approved credit portfolio strategies and control standards relating to credit management processes;
- (iii) Reviewing whether the Bank complies with laws and regulations and adheres to established policies; and
- (iv) Reviewing whether management is taking appropriate steps to address control deficiencies.

Internal Audit adheres to the Bank's Code of Conduct and is guided by the Mission Statement in the Audit Charter. It adopts the Code of Ethics and aligns its practices with the International Professional Practices Framework established by the Institute of Internal Auditors (IIA). In addition, it has embedded IIA's 10 Core Principles for the Professional Practice of Internal Auditing into its activities.

Internal Audit has unfettered access to the BAC, the Board and management, as well as the right to seek information and explanation. The Head of Internal Audit has a seat in HKMC and attends business reviews and strategic planning forums.

Internal Audit adopts a risk-based approach in its auditing activities. An annual audit plan is developed using a structured risk and control assessment framework through which the inherent risk and control effectiveness of each auditable entity in the Bank is assessed. This risk assessment methodology and approach are aligned with that of the Bank, including the risk taxonomy.

The assessment also covers risks arising from new lines of business, new products and emerging risks from the Bank's operating environment. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas and as required by regulators.

Audit reports containing identified issues and corrective action plans are reported to the BAC and senior management. Progress of the corrective action plans is monitored, and past due action plans are included in regular reports to the senior management and the BAC. In all routine audits, Internal Audit evaluates the control environment and management's control awareness which incorporates risk culture as guided by Financial Stability Board's Guidance on Sound Risk Culture.

Internal Audit apprises regulators and external auditors of all relevant audit matters. It works closely with external auditors to coordinate audit efforts.

QUALITY ASSURANCE & KEY DEVELOPMENTS

In line with leading practices, Group Audit has a quality assurance and improvement programme (QAIP) that covers its audit activity (including Hong Kong Internal Audit) and conforms to the International Standards for the Professional Practice of Internal Auditing. As part of the QAIP, internal quality assessment reviews (QAR) are conducted quarterly and external QAR are carried out at least once every five years by qualified professionals from an external organisation. Since 2019, the internal QAR has been contracted to an independent assessor, Protiviti.

Based on Protiviti's assessment, Group Audit leads the industry in the use of Agile Auditing approach and application of digital audit tools. These tools incorporate both rule-based and predictive analytics, enabling continuous risk monitoring. In Protiviti's capability maturity model, Group Audit was rated the highest level for audit planning, agile auditing, dynamic risk assessment and data analytics. Group Audit was recognized by Protiviti for the leading practices and cited in their annual global industry publication – Internal Auditing Around the World.

In 2021, Group Audit continued to apply the Data Driven Operating Model and Agile practices as part of its audit process. This enabled dynamic risk assessment and enhanced continuous monitoring which improved the speed of risk identification and response. The increased use of audit's analytical tools and data driven approach, coupled with the bank's suite of remote working technologies, helped Group Audit effectively provide audit assurance, in spite of COVID-19 conditions.