

DBS Bank (Hong Kong) Limited

Financial Highlights of 2007 Final Results and Key Ratios

- Profit attributable to shareholders increased by 2.4% (HK\$69 million) from 2006 to HK\$2,923 million excluding a net gain of HK\$267 million from the sale of office premises at 139 Queen's Road Central in May 2006 (hereinafter called "the gain from sale of premises in 2006")
- Profit before impairment allowances increased by 1.6% (HK\$60 million) from 2006 to HK\$3,892 million excluding the gain from sale of premises in 2006
- Net interest margin decreased by 38 basis points from 2006 to 2.36%
- Net interest income decreased by 6.7% (HK\$351 million) from 2006 to HK\$4,916 million
- Non-interest income increased by 45.3% (HK\$672 million) from 2006 to HK\$2,155 million excluding the gain from sale of premises in 2006
- Total expenses increased by 9.0% (HK\$262 million) from 2006 to HK\$3,180 million
- Impairment allowances decreased by 7.4% (HK\$30 million) from 2006 to HK\$375 million
- Gross advances to customers increased by 4.5% (HK\$5 billion) from 2006 to HK\$124 billion
- Deposits from customers (including financial liabilities designated at fair value through profit or loss) increased by 12.2% (HK\$20 billion) from 2006 to HK\$188 billion
- Cost-to-income ratio increased from 43.2% excluding the gain from sale of premises in 2006 to 45.0%
- Return on average total assets decreased from 1.4% excluding the gain from sale of premises in 2006 to 1.3%
- Return on average shareholders' funds increased from 15.6% excluding the gain from sale of premises in 2006 to 17.5%
- Loan-to-deposit ratio declined from 70.1% at the end of 2006 to 65.2%
- Ratio of impaired advances to gross advances to customers decreased from 1.50% at the end of 2006 to 1.47%
- Capital adequacy ratio declined from 15.9% at the end of 2006 to 15.1%

DBS Bank (Hong Kong) Limited

***DBS Bank (Hong Kong) Limited
reported an attributable profit of HK\$2,923 million for 2007***

HONG KONG, 15th February 2008 – DBS Bank (Hong Kong) Limited (the ‘Bank’) today announced its 2007 final results. The Bank recorded a consolidated profit attributable to shareholders of HK\$2,923 million, an increase of 2.4% from 2006 excluding a net gain of HK\$267 million from the sale of its office premises at 139 Queen’s Road Central in May 2006 (hereinafter called “the gain from sale of premises in 2006”).

The growth in the Bank’s profit was mainly attributable to higher non-interest income. Return on average total assets of 1.3% and return on average shareholders’ funds of 17.5% were recorded.

REVIEW OF ACTIVITIES

Hong Kong’s economy stayed vibrant in 2007, with the year-on-year real GDP growth staying on track to reach 6%. Merchandise exports grew notably in 2007. During the quarter ended December 2007, the seasonally-adjusted unemployment rate fell to 3.4%, the lowest since the first quarter of 1998. The improving job market, robust financial market activities, rising household income and wealth, and continued strong inbound tourism boosted consumer spending and retail sales.

On 26th May 2007, the Bank transferred its two Mainland China branches, Shenzhen Branch and Suzhou Branch, to its holding company, DBS Bank Ltd. Corporate and Investment Banking Division continued to perform well with strong sales of treasury related products and good loan growth. Consumer and Private Banking Divisions achieved strong sales in wealth management products. Credit quality was stable during 2007.

KEY FINANCIAL PERFORMANCE

During the year, the Bank achieved its goal of growing both total income and profit. Profit before impairment allowances was HK\$3,892 million, an increase of 1.6% from 2006 excluding the gain from sale of premises in 2006.

Excluding the gain from sale of premises in 2006, total income increased by 4.8% to HK\$7,071 million. Net interest income decreased by 6.7% to HK\$4,916 million, while non-interest income increased by 45.3% to HK\$2,155 million, of which net fee and commission income increased by 22.1% to HK\$1,600 million.

Total expenses increased by 9.0% to HK\$3,180 million. Staff costs increased by 6.7% partly due to upward wage pressure, while non-staff costs increased by 11.7%. The cost-to-income ratio increased to 45.0% from 43.2% in 2006 excluding the gain from sale of premises in 2006.

As at 31st December 2007, the level of impaired advances increased to HK\$1,818 million, or 1.47% of gross advances to customers, compared to HK\$1,777 million or 1.50% as at 31st December 2006.

Gross advances to customers increased by 4.5% from December 2006 to HK\$124 billion mainly due to growth in property-related loans, trade finance and loans to Private Banking customers. Customer deposits increased by 12.2% to HK\$188 billion. The loan-to-deposit ratio decreased to 65.2% from 70.1% as at 31st December 2006.

The Bank's financial position remains strong. Capital adequacy ratio, which has incorporated the Basel II requirements in Hong Kong effective from 1st January 2007, stood at a comfortable level of 15.1% as at 31st December 2007. A dividend payment of HK\$1,300 million was made during the year. Average liquidity ratio was 37.4% for 2007, compared to 42.7% for 2006.

- End -

DBS BANK (HONG KONG) LIMITED

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DBS BANK (HONG KONG) LIMITED

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 (the 'Group') for the year ended 31st December 2007.

Principal activities

The principal activity of the Bank is the provision of banking and related financial services. The principal activities of the subsidiaries are shown in Note 23 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31st December 2007 are set out in the consolidated income statement on page 5.

An interim dividend of HK\$0.25 per share totalling HK\$1,300,000,000 was paid on 20th July 2007 for the year ended 31st December 2007 (2006: three interim dividends for a total amount of HK\$6,067,000,000 were paid. The first two interim dividends each amounted to HK\$1,400,000,000 at approximately HK\$0.2692 per share and the third interim dividend amounted to HK\$3,267,000,000 of approximately HK\$0.6283 per share).

The directors do not recommend the payment of a final dividend for the year ended 31st December 2007 (2006: Nil).

Reserves

Details of the movements in the reserves of the Bank and the Group during the year are set out in Note 34 to the financial statements.

Fixed assets

Details of the movements in fixed assets during the year are set out in Note 24 to the financial statements.

Donations

Donations made by the Group during the year amounted to HK\$65,600 (2006: HK\$215,000).

Directors

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

Wong Kwong Shing, Frank - Chairman

Yip Yok Tak, Amy - Chief Executive

Chan Tak Kin - Deputy Chief Executive

Cheng Wai Chee, Christopher

Leung Ting Mow, Kenneth

Lo Chung Wing, Victor

Alexander Reid Hamilton

(appointed on 10th September 2007)

Jackson Peter Tai

(resigned on 31st December 2007)

Leung Chun Ying

(resigned on 31st May 2007)

In accordance with Article 90 of the Bank's Articles of Association, Mr. Alexander Reid Hamilton retires from office at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DBS BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Directors (continued)

In accordance with Article 98 of the Bank's Articles of Association, Mr. Wong Kwong Shing, Frank, Mr. Chan Tak Kin, Mr. Cheng Wai Chee, Christopher and Mr. Leung Ting Mow, Kenneth retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Interests in contracts

No contract of significance, 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 had a material interest, subsisted at the end of the year or at any time during the year.

Arrangements to acquire shares

The following were arrangements which subsisted at the end of the year or at any time during the year which enabled the directors of the Bank to acquire benefits by means of the acquisition of shares of DBS Group Holdings Ltd. ('DBSH'), the ultimate holding company of the Bank, or to be awarded shares of DBSH.

(a) *DBSH Share Option Plan*

The DBSH Share Option Plan (the 'Option Plan') was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999 under which options to subscribe for DBSH ordinary shares could be granted to DBSH Group executives.

At the beginning of the year, Mr. Wong Kwong Shing, Frank, Mr. Jackson Peter Tai and Mr. Chan Tak Kin have outstanding options granted under the Option Plan.

During the year, no options were granted to directors of the Bank and Mr. Chan Tak Kin had acquired shares in DBSH by exercising options granted pursuant to the Option Plan.

(b) *DBSH Share Plan (formerly known as the DBSH Performance Share Plan)*

The DBSH Share Plan (the 'Share Plan'), as amended, was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999 under which DBSH ordinary shares could be granted to DBSH Group executives, when prescribed DBSH Group performance targets are met over a three-year period or after the satisfactory completion of time-based service conditions.

During the year, Mr. Wong Kwong Shing, Frank, Mr. Jackson Peter Tai, Ms. Yip Yok Tak, Amy and Mr. Chan Tak Kin were eligible to receive DBSH shares under the Share Plan. A total of 159,016 DBSH shares were vested in Mr. Wong Kwong Shing, Frank, Mr. Jackson Peter Tai and Mr. Chan Tak Kin under the Share Plan during the year.

Apart from the above, at no time during the year was the Bank or any of its subsidiaries or its holding companies or any subsidiary 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 corporate.

DBS BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Management contracts

On 12th November 2002, an Information Technology Outsourcing Agreement (the 'IBM Agreement') was entered into between the Bank and IBM China / Hong Kong Limited ('IBM') in relation to the provision by IBM of certain information technology and related services to the Bank. The IBM Agreement was in line with the spirit of the Master Agreement (the 'IBM Master Agreement') dated 12th November 2002 entered into between DBS Bank Ltd., the Bank's holding company, and IBM Singapore Pte. Limited. The IBM Agreement commenced on 12th November 2002 and continues until 23:59 (Singapore Time) on 11th November 2012, unless terminated earlier pursuant to the terms of the IBM Master Agreement.

On 1st April 2004, a Management Country Agreement (the 'JLL Agreement') was entered into between the Bank and Jones Lang LaSalle Limited ('JLL') in relation to the provision by JLL of certain property management and related services to the Bank in Hong Kong. The JLL Agreement was in line with the spirit of the Master Agreement (the 'JLL Master Agreement') dated 1st April 2004 entered into between DBS Bank Ltd., and Jones Lang LaSalle Property Consultants Pte. Ltd. The initial term of the JLL Agreement covered the period from 1st April 2004 to 31st December 2006, or for so long as the JLL Master Agreement remains in effect, unless terminated earlier or extended under the terms of the JLL Agreement, whichever is earlier in time. The JLL Agreement has been extended by Addendums to 31st May 2007 and has been renewed for a further period from 1st June 2007 to 31st December 2008.

Apart from the foregoing, 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.

Auditors

The financial statements have been audited by Ernst & Young who will retire at the forthcoming annual general meeting and do not offer themselves for re-appointment.

A member's resolution to appoint PricewaterhouseCoopers as auditors of the Bank for the financial year ending 31st December 2008 until the conclusion of the annual general meeting in 2009 will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Kwong Shing, Frank
Chairman

Hong Kong, 1st February 2008

DBS BANK (HONG KONG) LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DBS BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of DBS Bank (Hong Kong) Limited set out on pages 5 to 73, which comprise the consolidated and company balance sheets as at 31st December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

1st February 2008

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

	Note	2007 HK\$'000	2006 HK\$'000
Interest income	4	11,814,280	11,136,163
Interest expense	5	(6,898,263)	(5,869,590)
Net interest income		4,916,017	5,266,573
Net fee and commission income	6	1,600,422	1,310,992
Net trading income / (loss)	7	453,605	(10,717)
Net gain on disposal of available-for-sale financial investments		24,715	83,193
Net gain on disposal of fixed assets and lease premium for land		15,024	335,927
Other income	8	61,448	30,493
Total income		7,071,231	7,016,461
Total expenses	9	(3,179,702)	(2,917,720)
Profit before impairment allowances		3,891,529	4,098,741
Impairment allowances on advances to customers	10	(374,766)	(404,834)
Profit before income tax		3,516,763	3,693,907
Income tax expense	12	(593,673)	(573,183)
Profit attributable to shareholders	13	2,923,090	3,120,724
Dividends	14	1,300,000	6,067,000

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2007

	Note	2007 HK\$'000	2006 HK\$'000
Assets			
Cash and balances with banks	15	36,339,915	17,896,241
Placements with and advances to banks	16	17,753,028	18,133,327
Trading securities	17	7,575,988	6,625,849
Positive replacement values		2,749,958	1,463,111
Advances to customers less impairment allowances	18	122,412,304	117,109,840
Available-for-sale financial investments	20	36,142,338	45,403,836
Other assets	21	6,258,152	2,224,659
Deferred income tax assets	31(b)	58,465	82,942
Fixed assets	24	1,200,488	1,072,253
Lease premium for land	25	2,032,933	2,086,721
		<u>232,523,569</u>	<u>212,098,779</u>
Total assets			
Liabilities			
Deposits and balances from banks		804,768	2,936,632
Negative replacement values		3,095,364	2,082,175
Trading liabilities	26	7,519,879	6,655,669
Financial liabilities designated at fair value through profit or loss	27	6,987,963	13,646,253
Deposits from customers	28	181,069,821	154,264,360
Certificates of deposit issued	29	617,795	2,513,621
Other liabilities	30	9,672,747	6,989,669
Current income tax liabilities	31(a)	338,293	306,413
Amount due to a jointly controlled entity	22	720,766	673,830
Subordinated liabilities	32	4,212,621	6,233,157
		<u>215,040,017</u>	<u>196,301,779</u>
Total liabilities			
Equity			
Share capital	33	5,200,000	5,200,000
Reserves	34	12,283,552	10,597,000
		<u>17,483,552</u>	<u>15,797,000</u>
Total equity			
Total liabilities and equity		<u>232,523,569</u>	<u>212,098,779</u>

Wong Kwong Shing, Frank
Director

Yip Yok Tak, Amy
Director

Chan Tak Kin
Director

Wong Wai Nar, Doris
Secretary

DBS BANK (HONG KONG) LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2007

	Note	2007 HK\$'000	2006 HK\$'000
Assets			
Cash and balances with banks	15	36,336,988	17,893,512
Placements with and advances to banks	16	17,753,028	18,133,327
Trading securities	17	7,575,988	6,625,849
Positive replacement values		2,749,958	1,463,111
Advances to customers less impairment allowances	18	122,437,315	117,136,246
Available-for-sale financial investments	20	36,142,338	45,403,836
Other assets	21	6,256,759	2,221,422
Deferred income tax assets	31(b)	60,468	84,125
Interest in a jointly controlled entity	22	500	500
Subsidiaries	23	172,692	161,177
Fixed assets	24	1,172,936	1,047,327
Lease premium for land	25	2,032,933	2,086,721
Total assets		232,691,903	212,257,153
Liabilities			
Deposits and balances from banks		804,768	2,936,632
Negative replacement values		3,095,364	2,082,175
Trading liabilities	26	7,519,879	6,655,669
Financial liabilities designated at fair value through profit or loss	27	6,987,963	13,646,253
Deposits from customers	28	181,069,821	154,264,360
Certificates of deposit issued	29	617,795	2,513,621
Other liabilities	30	9,126,683	6,477,953
Current income tax liabilities	31(a)	337,082	307,600
Amount due to a jointly controlled entity	22	1,441,531	1,347,660
Amounts due to subsidiaries	23	242,335	219,280
Subordinated liabilities	32	4,212,621	6,233,157
Total liabilities		215,455,842	196,684,360
Equity			
Share capital	33	5,200,000	5,200,000
Reserves	34	12,036,061	10,372,793
Total equity		17,236,061	15,572,793
Total liabilities and equity		232,691,903	212,257,153

Wong Kwong Shing, Frank
Director

Yip Yok Tak, Amy
Director

Chan Tak Kin
Director

Wong Wai Nar, Doris
Secretary

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2007

	Share Capital HK\$'000	Share Premium HK\$'000	Capital Reserve HK\$'000	Investments Revaluation Reserve HK\$'000	General Reserve HK\$'000	Retained Earnings HK\$'000	Total Equity HK\$'000
Balance as at 1st January 2006	5,200,000	595,503	11,636	(267,927)	2,398,792	10,670,807	18,608,811
Change in fair value of available-for-sale financial investments	–	–	–	181,410	–	–	181,410
Exchange differences arising from translation of net investments in overseas branches and subsidiaries	–	–	–	–	–	(311)	(311)
Profit attributable to shareholders	–	–	–	–	–	3,120,724	3,120,724
Reserve transferred to income statement upon disposal of available-for-sale financial investments	–	–	–	(68,777)	–	–	(68,777)
Deferred income tax	–	–	–	22,143	–	–	22,143
Dividends	–	–	–	–	–	(6,067,000)	(6,067,000)
Balance as at 31st December 2006	5,200,000	595,503	11,636	(133,151)	2,398,792	7,724,220	15,797,000
Change in fair value of available-for-sale financial investments	–	–	–	93,470	–	–	93,470
Exchange differences arising from translation of net investments in overseas branches and subsidiaries	–	–	–	–	–	1,056	1,056
Profit attributable to shareholders	–	–	–	–	–	2,923,090	2,923,090
Reserve transferred to income statement upon disposal of available-for-sale financial investments	–	–	–	(23,437)	–	–	(23,437)
Deferred income tax	–	–	–	(7,627)	–	–	(7,627)
Dividends	–	–	–	–	–	(1,300,000)	(1,300,000)
Balance as at 31st December 2007	5,200,000	595,503	11,636	(70,745)	2,398,792	9,348,366	17,483,552

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

	Note	2007 HK\$'000	2006 HK\$'000
Net cash inflow from operating activities	36(a)	27,454,853	2,774,952
Investing activities			
Purchase of fixed assets		(34,083)	(155,968)
Proceeds from disposal of fixed assets and lease premium for land		24,254	800,286
Disposal of Mainland branches		(588,947)	–
Net cash (outflow) / inflow from investing activities		(598,776)	644,318
Financing activities			
Dividends paid		(1,300,000)	(6,067,000)
Interest paid for certificates of deposit issued		(102,858)	(187,136)
Interest paid for subordinated liabilities		(312,796)	(157,314)
Issuance of certificates of deposit	36(b)	–	13,000
Redemption of certificates of deposit	36(b)	(2,228,315)	(3,075,326)
Issuance of subordinated liabilities	36(b)	–	4,198,878
Redemption of subordinated liabilities	36(b)	(2,041,120)	–
Net cash outflow from financing activities		(5,985,089)	(5,274,898)
Increase / (decrease) in cash and cash equivalents		20,870,988	(1,855,628)
Cash and cash equivalents at 1st January		23,848,846	25,704,474
Cash and cash equivalents at 31st December	36(c)	44,719,834	23,848,846

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The principal activities of the Bank and its subsidiaries (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, Central, Hong Kong.

The ultimate holding company is DBS Group Holdings Ltd. ('DBSH') which is listed, incorporated and domiciled in the Republic of Singapore. The address of its registered office is 6 Shenton Way, DBS Building Tower One, Singapore 068809.

The consolidated financial statements are presented in thousands of units of HK dollars (HK\$'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 1st February 2008.

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 have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRSs' which is a collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ('HKASs') and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial investments, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties. In addition, the carrying amounts of assets and liabilities that are designated as hedged items in a fair value hedge are adjusted for fair value changes attributable to the hedged risks.

The preparation of financial statements in conformity with HKFRSs requires management to exercise judgement, use estimates and make assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity are disclosed in Note 3.

The adoption of new / revised HKFRSs

In 2007, the Group adopted the new / revised standards and interpretations of HKFRSs as set out below, which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements - Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above standards and interpretations did not result in substantial changes to the Group's accounting policies, which are consistent with those used in the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

New and revised HKFRSs (which are relevant to the Group's operations) issued but not effective yet

The Group has not early adopted the following new / revised standards and interpretations:

HKFRS 8: Operating Segments

HKFRS 8 becomes effective for financial years beginning on or after 1st January 2009. It replaces a current accounting standard, HKAS 14 Segment Reporting. HKFRS 8 introduces the management approach to segment reporting and a single set of operating segments will replace the primary and secondary segments. Information reviewed by the chief operating decision-maker will determine the segments, the measure of segment performance and disclosures.

The scope of HKFRS 8 is applicable primarily to those entities whose debt or equity securities are publicly traded.

HKAS 1 (Revised): Presentation of Financial Statements

HKAS 1 (Revised) becomes effective for financial years beginning on or after 1st January 2009. The revised standard introduces new titles for the financial statements and affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events as required by other HKFRSs.

The adoption of this revised standard will affect the presentation of the Group's financial statements.

HKAS 23 (Revised): Borrowing Costs

HKAS 23 (Revised) becomes effective for financial years beginning on or after 1st January 2009. This revised standard removes the option of recognising as an expense borrowing costs relating to assets that take a substantial period of time to get ready for its intended use or sale (i.e. qualifying assets).

There is no expected material impact on the Group's financial statements arising from this revised standard.

HK(IFRIC) - Int 11: HKFRS 2 Group and Treasury Share Transactions

HK(IFRIC) - Int 11 becomes effective for financial years beginning on or after 1st March 2007. It provides clarification on circumstances when a share-based arrangement should be accounted for as an equity-settled or a cash-settled transaction. It also addresses the accounting for share-based payment transaction involving two or more entities within the Group.

There is no expected material impact on the Group's financial statements arising from this new interpretation.

HK(IFRIC) - Int 13 : Customer Loyalty Programmes

HK(IFRIC) - Int 13 becomes effective for financial years beginning on or after 1st July 2008. This interpretation requires an entity to recognise credits, that it awards to customers as part of a sales transaction, as a separately identifiable component of revenue which would be deferred at the date of initial sale.

There is no expected material impact on the Group's financial statements arising from this new interpretation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and all its subsidiaries.

Subsidiaries

Subsidiaries are companies in which the Group has the power to govern the financial and operating policies to obtain benefits from their activities and this is generally accompanied by a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Investment in jointly controlled entities

A jointly controlled entity is an entity which is jointly controlled by the Group together with one or more parties through contractual arrangements.

The investment is accounted for by proportionate consolidation which involves combining the Group's share of jointly controlled entity's income, expenses, assets and liabilities on a line-by-line basis with similar items in the Group's financial statements.

Investment cost at Bank level

Investments in subsidiaries and jointly controlled entities are stated at cost less impairment losses in the Bank's balance sheet. On disposal of investments in subsidiaries and jointly controlled entities, the difference between the net proceeds and the carrying amounts of the investments is taken to the income statement.

Intra-group transactions

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profits resulting from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in these companies. Losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Financial instruments

Financial instruments are classified according to the purpose for which the assets were acquired or the liabilities were incurred. Management determines the classification at initial recognition and re-evaluates the designation at every reporting date, with the exception that the designation of financial assets or financial liabilities at fair value through profit or loss is not revocable.

The classification of financial instruments is as follows:

(i) Financial instruments at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at initial recognition. Financial assets and financial liabilities are classified in this category if acquired or incurred principally for the purpose of short term selling or repurchasing (held for trading) or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial instruments designated under the fair value option are financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, and which would otherwise be accounted for separately.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) *Financial instruments (continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(iii) Available-for-sale financial investments

Available-for-sale financial investments are non-derivatives that are either designated in this category or not classified in any other categories. These financial investments are those intended to be held for an indefinite period of time, and may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices.

(iv) Other financial liabilities

These are financial liabilities that are not measured at fair value through profit or loss (Note 2(c)(i)).

Recognition and derecognition

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are removed or derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

Initial measurement

Financial instruments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issue of the financial liability, except for financial instruments at fair value through profit or loss, for which transactions costs are expensed off immediately.

Subsequent measurement

Available-for-sale financial investments and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less impairment allowances. Unquoted investments classified as available-for-sale for which fair values cannot be reliably determined are carried at cost, less impairment allowances.

Realised and unrealised gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are taken into 'net trading income' in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the investments revaluation reserve, except for hedged item as mentioned in Note 2(k). When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the investments revaluation reserve are taken to the income statement.

Other financial liabilities, except for hedged item as mentioned in Note 2(k), are carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) *Financial instruments (continued)*

Determination of fair value

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group are the current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(d) *Recognition of day one profit or loss*

Where the transaction price is different to the fair value determined using valuation models for which not all inputs are market observable prices or rates, such financial instruments are initially recognised at transaction price, which is the best indicator of fair value. The difference between the transaction price and model value is not recognised immediately in the income statement. This difference, commonly referred to as 'day one profit or loss', is released to the income statement on the earlier of the following: (i) amortisation over the life of the transaction; (ii) when all the market inputs become observable; or (iii) on derecognition.

(e) *Impairment*

Financial assets carried at amortised cost

Impairment allowances are made when there is objective evidence of impairment as a result of the occurrence of loss events that will impact on the estimated future cash flows. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and / or financial conditions;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Granting of a concession to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the entity would not otherwise consider; and
- High probability of bankruptcy or other financial reorganisation of the borrower.

Individual impairment allowances are assessed by a discounted cash flow method. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

Collective impairment allowances are assessed on the basis of contractual cash flows and historical loss experience adjusted for current conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the allowance is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(e) Impairment (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment allowances are reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the allowances for loan impairment in the income statement.

Available-for-sale financial investments

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial investment is impaired. In the case of an equity investment, a significant or prolonged decline in the fair value of security below its cost is considered in determining whether the asset is impaired. When there is objective evidence of an impairment of an available-for-sale financial investment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from the investments revaluation reserve within equity and recognised in the income statement. Impairment losses recognised in the income statement on the equity investment is not reversed through the income statement, until the equity investment is disposed of. A subsequent recovery in the value of an available-for-sale debt security whose value is impaired is reversed through the income statement if there has been an identifiable event that led to the recovery.

(f) Leases

(i) Hire purchase contracts and finance leases

Where the Group is a lessor under finance leases and hire purchase transactions, the amounts due under the leases, net of unearned finance income, are recognised as a receivable and are included in 'Advances to customers'. Finance income implicit in rentals receivable is credited to the income statement over the lease period so as to produce an approximately constant periodic rate of return on the net investment outstanding for each accounting period.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the lease term. The Group's interests in leasehold land are also accounted for as operating leases.

Where the Group is a lessor under operating leases, rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(g) Sale and repurchase agreements

Repurchase agreements ('Repos') are treated as collateralised borrowing and the amount borrowed is shown as a liability and included in 'Deposits from customers' or 'Deposits and balances from banks'. The securities sold under repos are treated as pledged assets and remain on the balance sheet at amortised cost or fair value depending on their classification. Reverse repurchase agreements ('Reverse repos') are treated as collateralised lending and the amount lent is shown as an asset and included in 'Advances to customers' or 'Placements with and advances to banks'. The difference between the amount received and the amount paid under repos and reverse repos is amortised as interest expense and interest income respectively on an effective interest basis.

(h) Properties and other fixed assets

(i) Properties

Properties are stated at cost less accumulated impairment losses and accumulated depreciation. Depreciation is calculated to write off the assets over their estimated useful lives on a straight-line basis as follows:

Freehold land	Not depreciated
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

(ii) Investment properties

Investment properties are carried at fair value, representing estimated open market value determined by independent qualified valuers. The changes in fair value are recognised in the income statement. Deferred income tax is recognised for the change in fair value of investment properties and charged to the income statement.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

(iii) Furniture, fixtures and equipment

Furniture, fixtures and equipment are stated at cost less accumulated impairment losses and accumulated depreciation. Depreciation on furniture, fixtures and equipment is calculated to write off the assets on a straight-line basis over their estimated useful lives of between 3 and 8 years.

(iv) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that properties, furniture, fixtures and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount (being the higher of the fair value less cost to sell and the value-in-use). Such impairment losses are recognised in the income statement.

(v) Gain or loss on disposal

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(i) *Lease premium for land*

Leasehold properties held for own use should be split into a lease of land and building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Leasehold land premium that is up-front payment to acquire long-term interest in leasehold land is stated at cost and amortised over the period of the lease.

(j) *Provisions and other liabilities*

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 can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

(k) *Derivative financial instruments and hedge accounting*

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are classified as assets when fair value is positive ('positive replacement values') and as liabilities when fair value is negative ('negative replacement values'). Changes in the fair value of derivatives other than those designated as cash flow hedges or hedges of net investments in foreign operations are recognised in 'net trading income'.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in 'net trading income'.

For derivatives designated as hedging instruments, each entity within the Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, including its risk management objective for undertaking various hedge transactions and methods used to assess effectiveness of the hedge. Each entity within the Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged item.

(i) Fair value hedge

For a qualifying fair value hedge, the changes in the fair value of the derivative are recorded in the income statement, together with any changes in the fair value of the hedged item attributable to the hedged risk. Gain or loss arising from hedge ineffectiveness is recognised in the income statement under 'net trading income'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the period to maturity of the hedged item.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(k) *Derivative financial instruments and hedge accounting (continued)*

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivative designated and qualified as a hedge of future cash flows are recognised directly in equity, and taken to the income statement in the periods when the hedged item affects profit or loss. 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 equity remains until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised immediately in the income statement.

(iii) Hedge of net investment in a foreign operation

Hedges of net investments in the Group's foreign operations are accounted for in a manner similar to cash flow hedges. The gain or loss from the derivative relating to the effective portion of the hedge is recognised in equity. Gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement. On disposal of the foreign operation, the cumulative gain or loss in equity is taken to the income statement under 'net trading income'.

(l) *Offsetting financial instruments*

Certain financial assets and liabilities offset each other and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(m) *Interest income and expenses*

Interest income and expenses are recognised on a time-proportionate basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts. No interest expense is accrued on the Group's structured investment deposits which are carried at fair value through profit or loss.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and thereafter amortising the discount as interest income using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(n) *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 is recognised on the completion of a transaction. For a service that is provided over a period of time, fee and commission income is recognised over the period of which the related service is provided or credit risk is undertaken.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(o) *Dividend income*

Dividend income is recognised when the right to receive payment is established and is included in the income statement under 'other income'.

(p) *Employee benefits*

(i) Bonus plans

Liabilities for bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(ii) Pension obligations

The Group offers a mandatory provident fund scheme and participates in a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and the Group.

The Group's contributions to the mandatory provident fund scheme and defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

(iii) Share-based compensation

There is a Share Option Plan run by DBSH, the ultimate holding company of the Bank. Under this plan, share options are granted to eligible staff. There is also a Share Plan run by DBSH. Under this plan, ordinary shares in DBSH are given free of charge to eligible employees subject to DBSH Group meeting certain prescribed performance targets or after the satisfactory completion of time-based service conditions.

These share based payment expenses which are measured at their fair value at grant date are 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.

(q) *Taxation*

The current taxation charged to the income statement represents tax at the current rate based on taxable profits earned during the year. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used in the determination of deferred income tax.

Deferred income tax liabilities are generally recognised for all taxable temporary differences. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint venture company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(q) *Taxation (continued)*

Deferred income tax assets and liabilities are credited or charged in the income statement, except when they relate to items credited or charged directly to reserves, in which case the deferred income tax assets and liabilities are also dealt with in reserves.

(r) *Foreign currencies*

(i) Functional and presentation currency

Items in the financial statements of the Bank and each of the Group's subsidiaries are translated using their functional currency, being the currency of the primary economic environment in which the entity operates. The financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Bank and the Group.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated at foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at foreign exchange rates ruling at that date. Foreign exchange differences arising from translation are recognised in the income statement. Non-monetary assets and liabilities measured at cost in foreign currencies are translated using foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated to Hong Kong dollars at foreign exchange rates ruling at the dates the fair value was determined.

(iii) Foreign operations

The results and financial positions of the Group's operations whose functional currency is not Hong Kong dollars are translated into Hong Kong dollars in the following manner:

- Assets and liabilities are translated at the exchange rate ruling at the balance sheet date;
- Income and expenses in the income statement are translated at an average exchange rate approximating the exchange rates at the dates of the transactions; and
- All resulting exchange differences are dealt with as a movement in retained earnings.

(s) *Financial guarantees*

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period of the financial guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

The exposure to potential losses associated with financial guarantees is monitored periodically. When there is objective evidence indicating probability of losses occurring, a provision is recognised for the financial guarantee.

(t) *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 and treasury bills.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(u) *Fiduciary activities*

Assets and income belonging to customers for whom the Group acts in a fiduciary capacity as nominee, trustee or agent, are excluded from the financial statements.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes certain assumptions and estimates in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Impairment allowances*

The Group establishes, through charges against profit, impairment allowances in respect of estimated loss in loans and receivables. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances should represent the aggregate amount by which management considers it necessary to write down its loan portfolio in order to state it in the balance sheet at its estimated ultimate net realisable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The quantum of the allowance is also impacted by the collateral value and this in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Fair value of financial instruments*

Fair value is defined as the value at which positions could be closed or sold in a transaction with a willing and knowledgeable counterparty over a period of time consistent with the Group's trading or investment strategy. 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 market parameters, including interest rate yield curves, option volatilities and currency rates. Management exercises judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors used in the valuation process. Judgement may also be applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting fair value estimates.

(c) *Income taxes*

When applying the relevant tax rules, there are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. In these circumstances, 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. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Interest income

	2007 HK\$'000	2006 HK\$'000
Interest income on listed investments	598,213	573,583
Interest income on unlisted investments	1,633,289	1,351,905
Other interest income	9,582,778	9,210,675
	<u>11,814,280</u>	<u>11,136,163</u>

Included in interest income is HK\$15,932,000 (2006: HK\$23,211,000) with respect to the time value of the impaired loans released from the impairment allowances (Note 19) and HK\$257,105,000 (2006: HK\$293,714,000) with respect to interest income recognised on financial assets at fair value through profit or loss.

5 Interest expense

	2007 HK\$'000	2006 HK\$'000
Interest expense on subordinated liabilities maturing after five years	246,758	13,310
Other interest expense	6,651,505	5,856,280
	<u>6,898,263</u>	<u>5,869,590</u>

Interest expense recognised on financial liabilities at fair value through profit or loss amounted to HK\$276,418,000 (2006: HK\$330,430,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Net fee and commission income

	2007 HK\$'000	2006 HK\$'000
Fee and commission income	1,962,779	1,629,398
Fee and commission expense	<u>(362,357)</u>	<u>(318,406)</u>
Net fee and commission income	<u>1,600,422</u>	<u>1,310,992</u>
Comprising:		
– Wealth management	627,941	376,576
– Trade and remittances	360,873	386,040
– Credit card	196,391	203,249
– Loan-related	122,171	132,732
– Stock broking	82,752	25,652
– Investment banking	24,528	12,216
– Deposit-related	22,156	23,351
– Guarantees	7,874	8,467
– Others	<u>155,736</u>	<u>142,709</u>
	<u>1,600,422</u>	<u>1,310,992</u>
Of which:		
Fee and commission income arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	718,381	714,632
– Trust or other fiduciary activities	35,436	21,736
Fee and commission expense arising from:		
– Financial assets or financial liabilities not at fair value through profit or loss	333,672	300,295

7 Net trading income / (loss)

	2007 HK\$'000	2006 HK\$'000
Net trading income		
– Foreign exchange	636,959	569,096
– Interest rates, credit and equities	<u>436,107</u>	<u>382,463</u>
	1,073,066	951,559
Net loss from financial liabilities designated at fair value	<u>(619,461)</u>	<u>(962,276)</u>
	<u>453,605</u>	<u>(10,717)</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Other income

	2007	2006
	HK\$'000	HK\$'000
Fair value adjustment on investment properties	34,066	7,064
Dividend income from listed investments	2,572	3,533
Dividend income from unlisted investments	11,447	6,536
Others	13,363	13,360
	61,448	30,493

9 Total expenses

	2007	2006
	HK\$'000	HK\$'000
Employee benefits		
– Salaries and other short term employee compensation	1,575,226	1,480,387
– Pensions	75,157	74,875
– Share based payments	21,822	12,594
Premises and equipment expenses excluding depreciation		
– Amortisation of lease premium for land	47,598	48,024
– Rental of premises	148,325	107,407
– Others	218,974	217,345
Depreciation	143,799	140,215
Auditors' remuneration	10,214	8,704
Other expenses	938,587	828,169
	3,179,702	2,917,720

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Impairment allowances on advances to customers

	2007	2006
	HK\$'000	HK\$'000
Impairment allowances on advances to customers		
– Individual impairment allowances (Note 19)	242,703	289,953
– Collective impairment allowances (Note 19)	132,063	114,881
	<u>374,766</u>	<u>404,834</u>
Individual impairment allowances		
Of which:		
– New allowances	433,807	450,747
– Releases	(154,040)	(137,914)
– Recoveries	(37,064)	(22,880)
	<u>242,703</u>	<u>289,953</u>
Collective impairment allowances		
Of which:		
– New allowances	215,977	212,315
– Releases	(43,686)	(56,237)
– Recoveries	(40,228)	(41,197)
	<u>132,063</u>	<u>114,881</u>

11 Directors' emoluments

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

	2007	2006
	HK\$'000	HK\$'000
Fees	992	790
Salaries, housing and other allowances and benefits in kind	18,438	16,121
Pensions	304	263
	<u>19,734</u>	<u>17,174</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Income tax expense

(a) Income tax expense in the consolidated income statement represents:

	2007	2006
	HK\$'000	HK\$'000
Hong Kong profits tax		
– Current year	555,899	538,252
– Overprovision in prior years	–	(94)
Overseas tax		
– Current year	17,670	9,904
– Underprovision in prior years	3,254	–
	<hr/>	<hr/>
Current income tax	576,823	548,062
Deferred income tax (Note 31(b))	16,850	25,121
	<hr/>	<hr/>
	593,673	573,183
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Taxation for overseas subsidiaries and branches are charged at the appropriate current rates of taxation ruling in the countries in which they operate.

(b) The deferred income tax charged in the consolidated income statement comprises the following temporary differences:

	2007	2006
	HK\$'000	HK\$'000
Accelerated depreciation allowances	9,011	19,983
Impairment allowances	1,175	4,604
Fair value adjustment on investment properties	5,962	1,236
Tax losses	702	(702)
	<hr/>	<hr/>
	16,850	25,121
	<hr/> <hr/>	<hr/> <hr/>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Income tax expense (continued)

(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 17.5% (2006: 17.5%) is as follows:*

	2007 HK\$'000	2006 HK\$'000
Profit before income tax	<u>3,516,763</u>	<u>3,693,907</u>
Tax calculated at a tax rate of 17.5%	615,434	646,434
Effect of different tax rates in other countries	(3,712)	(8,227)
Income not subject to tax	(90,672)	(141,587)
Expenses not deductible for tax purposes	69,435	78,170
Underprovision in prior years	3,254	–
Overprovision in prior years	–	(94)
Others	<u>(66)</u>	<u>(1,513)</u>
Income tax expense	<u><u>593,673</u></u>	<u><u>573,183</u></u>

13 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Bank to the extent of HK\$2,899,775,000 (2006: HK\$3,092,388,000).

14 Dividends

An interim dividend of HK\$1,300,000,000 (HK\$0.25 per share) was paid for the year ended 31st December 2007. Three interim dividends for a total amount of HK\$6,067,000,000 were paid for the year ended 31st December 2006. The first two interim dividends each amounted to HK\$1,400,000,000 at approximately HK\$0.2692 per share and the third interim dividend amounted to HK\$3,267,000,000 of approximately HK\$0.6283 per share.

15 Cash and balances with banks

	Group		Bank	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash in hand	330,694	271,239	330,694	271,239
Balances with central banks	309,222	485,557	309,222	485,557
Balances with banks	34,240,133	15,927,210	34,237,206	15,924,481
Trade bills	<u>1,459,866</u>	<u>1,212,235</u>	<u>1,459,866</u>	<u>1,212,235</u>
	<u><u>36,339,915</u></u>	<u><u>17,896,241</u></u>	<u><u>36,336,988</u></u>	<u><u>17,893,512</u></u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Placements with and advances to banks

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Remaining maturity:		
– One year or less but over one month	16,823,573	18,133,327
– Over one year	929,455	–
	<u>17,753,028</u>	<u>18,133,327</u>

17 Trading securities

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Treasury bills	4,415,663	3,511,265
Other debt securities	3,160,325	3,114,584
	<u>7,575,988</u>	<u>6,625,849</u>
Of which:		
– Listed in Hong Kong, at fair value	2,598,587	2,606,729
– Unlisted, at fair value	4,977,401	4,019,120
	<u>7,575,988</u>	<u>6,625,849</u>

Trading securities are analysed by issuer as follows:

Sovereigns	7,525,557	6,621,902
Public sector entities	1,490	3,947
Banks	48,941	–
	<u>7,575,988</u>	<u>6,625,849</u>

Trading securities are analysed by rating agency designation as follows:

AA- to AA+	7,527,047	6,625,849
A- to A+	48,941	–
	<u>7,575,988</u>	<u>6,625,849</u>

The ratings referred 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.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Advances to customers less impairment allowances

	Group		Bank	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers	124,097,593	118,765,054	124,097,593	118,765,054
Impairment allowances (Note 19)				
– Collectively assessed	(889,195)	(913,124)	(864,184)	(886,718)
– Individually assessed	(796,094)	(742,090)	(796,094)	(742,090)
	<u>122,412,304</u>	<u>117,109,840</u>	<u>122,437,315</u>	<u>117,136,246</u>

(a) *Advances to customers include finance lease receivables and hire purchase contracts and are analysed as follows:*

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Gross investment in finance leases and hire purchase contracts receivable:		
– Not later than one year	2,308,652	2,364,692
– Later than one year and not later than five years	3,553,102	3,545,805
– Later than five years	7,406,281	7,494,498
	13,268,035	13,404,995
Unearned future finance income	(103,870)	(108,919)
Net investment in finance leases and hire purchase contracts	<u>13,164,165</u>	<u>13,296,076</u>

The net investment in finance leases and hire purchase contracts is analysed as follows:

Not later than one year	2,249,105	2,299,129
Later than one year and not later than five years	3,508,991	3,502,961
Later than five years	7,406,069	7,493,986
	<u>13,164,165</u>	<u>13,296,076</u>

The unguaranteed residual values included in the gross investment in finance leases and hire purchase contracts as at 31st December 2007 and 2006 are not considered to be material.

The individual impairment allowances for finance lease receivables and hire purchase contracts amounted to HK\$99,465,000 as at 31st December 2007 (2006: HK\$97,126,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Impairment allowances on advances to customers

	Group		
	Individually assessed HK\$'000	Collectively assessed HK\$'000	Total HK\$'000
As at 1st January 2007	742,090	913,124	1,655,214
Amounts written off	(179,716)	(172,241)	(351,957)
Recoveries of advances written off in previous years	37,064	40,228	77,292
Net charge to consolidated income statement (Note 10)	242,703	132,063	374,766
Discounting effect released from impairment allowances (Note 4)	(15,932)	–	(15,932)
Disposal of Mainland branches	(30,330)	(23,979)	(54,309)
Exchange differences	215	–	215
At 31st December 2007	<u>796,094</u>	<u>889,195</u>	<u>1,685,289</u>
As at 1st January 2006	693,298	931,493	1,624,791
Amounts written off	(242,543)	(174,447)	(416,990)
Recoveries of advances written off in previous years	22,880	41,197	64,077
Net charge to consolidated income statement (Note 10)	289,953	114,881	404,834
Discounting effect released from impairment allowances (Note 4)	(23,211)	–	(23,211)
Exchange differences	1,713	–	1,713
At 31st December 2006	<u>742,090</u>	<u>913,124</u>	<u>1,655,214</u>
	Bank		
	Individually assessed HK\$'000	Collectively assessed HK\$'000	Total HK\$'000
As at 1st January 2007	742,090	886,718	1,628,808
Amounts written off	(179,716)	(141,566)	(321,282)
Recoveries of advances written off in previous years	37,064	33,935	70,999
Net charge to income statement	242,703	109,076	351,779
Discounting effect released from impairment allowances	(15,932)	–	(15,932)
Disposal of Mainland branches	(30,330)	(23,979)	(54,309)
Exchange differences	215	–	215
At 31st December 2007	<u>796,094</u>	<u>864,184</u>	<u>1,660,278</u>
As at 1st January 2006	693,298	898,337	1,591,635
Amounts written off	(242,543)	(141,682)	(384,225)
Recoveries of advances written off in previous years	22,880	34,729	57,609
Net charge to income statement	289,953	95,334	385,287
Discounting effect released from impairment allowances	(23,211)	–	(23,211)
Exchange differences	1,713	–	1,713
At 31st December 2006	<u>742,090</u>	<u>886,718</u>	<u>1,628,808</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Available-for-sale financial investments

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Treasury bills	3,004,235	3,155,013
Certificates of deposit held	3,108,123	3,316,964
Other debt securities	29,954,469	38,841,297
	36,066,827	45,313,274
Debt securities	75,511	90,562
Equity securities	36,142,338	45,403,836
	1,821,277	2,899,978
Debt securities	7,895,084	8,659,172
– Listed in Hong Kong, at fair value	26,336,145	33,739,803
– Listed outside Hong Kong, at fair value	14,321	14,321
– Unlisted, at fair value	36,066,827	45,313,274
– Unlisted, at cost		
	74,497	89,553
Equity securities	1,014	1,009
– Listed in Hong Kong, at fair value	75,511	90,562
– Unlisted, at cost	36,142,338	45,403,836

Available-for-sale financial investments are analysed by issuer as follows:

Sovereigns	4,198,619	5,613,574
Public sector entities	744,356	837,788
Banks	27,008,459	38,007,769
Corporates	4,176,583	930,384
Others	14,321	14,321
	36,142,338	45,403,836

Available-for-sale debt securities are analysed by rating agency designation as follows:

AAA	3,402,487	3,782,290
AA- to AA+	16,125,084	23,006,700
A- to A+	11,091,533	13,722,003
Lower than A-	4,366,907	3,760,663
Unrated	1,080,816	1,041,618
	36,066,827	45,313,274

The ratings referred 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.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Other assets

	Group		Bank	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accrued interest	844,503	988,701	844,503	988,701
Other accounts	5,413,649	1,235,958	5,412,256	1,232,721
	6,258,152	2,224,659	6,256,759	2,221,422

22 Interest in a jointly controlled entity

	Group		Bank	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investment, at cost			500	500
Amount due to a jointly controlled entity	720,766	673,830	1,441,531	1,347,660

The Group's interest in the jointly controlled entity is as follows:

	2007	2006
	HK\$'000	HK\$'000
Non-current assets	27,551	24,926
Current assets	721,909	652,640
Current liabilities	558,293	503,348
Share of income	139,823	136,045
Share of expenses	123,692	114,843

Details of the jointly controlled entity are as follows:

Name of company	Country of incorporation	Place of operation	Particulars of issued shares held	Interest held	Principal activities
Hutchison DBS Card Limited	British Virgin Islands	Hong Kong	500,000 class A shares of HK\$1 each 500,000 class B shares of HK\$1 each	50%	Provision of credit card services

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Subsidiaries

	Bank	
	2007	2006
	HK\$'000	HK\$'000
Unlisted shares, at cost after impairment of HK\$2,215,000 (2006: HK\$2,215,000)	144,973	144,942
Amounts due from subsidiaries	27,719	16,235
	172,692	161,177
Amounts due to subsidiaries	242,335	219,280

During the year, the subsidiaries have maintained deposit accounts with the Bank under its normal course of business. The other amounts due from / to subsidiaries do not carry fixed terms of repayment and are interest free.

Details of the principal subsidiaries which are wholly and directly owned by the Bank are as follows:

<u>Name of company</u>	<u>Place of operation and incorporation</u>	<u>Particulars of issued share capital</u>	<u>Principal activities</u>
DBS Corporate Services (Hong Kong) Limited	Hong Kong	500,000 shares of HK\$1 each	Provision of corporate services
Ting Hong Nominees Limited	Hong Kong	10,000 shares of HK\$1 each	Provision of nominee, trustee and agency services
Overseas Trust Bank Nominees Limited	Hong Kong	50,000 shares of HK\$1 each	Provision of nominee services
DBS Trustee H.K. (Jersey) Limited	Jersey	100,000 shares of £1 each	Provision of trustee and trust administration services

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Fixed assets

(a) Fixed assets

Group

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation					
As at 1st January 2007	23,374	768,513	110,934	1,199,142	2,101,963
Additions	39	6,334	–	318,055	324,428
Disposals	–	(5,858)	–	(276,858)	(282,716)
Disposal of Mainland branches	–	(51,376)	–	(19,845)	(71,221)
Fair value adjustment	–	–	34,066	–	34,066
Exchange adjustments	–	–	–	26	26
At 31st December 2007	<u>23,413</u>	<u>717,613</u>	<u>145,000</u>	<u>1,220,520</u>	<u>2,106,546</u>
Accumulated depreciation and impairment					
As at 1st January 2007	16,942	314,360	–	698,408	1,029,710
Charge for the year	102	33,662	–	110,035	143,799
Disposals	–	(2,954)	–	(211,580)	(214,534)
Disposal of Mainland branches	–	(45,283)	–	(7,638)	(52,921)
Exchange adjustments	–	–	–	4	4
At 31st December 2007	<u>17,044</u>	<u>299,785</u>	<u>–</u>	<u>589,229</u>	<u>906,058</u>
Net book value					
At 31st December 2007	<u><u>6,369</u></u>	<u><u>417,828</u></u>	<u><u>145,000</u></u>	<u><u>631,291</u></u>	<u><u>1,200,488</u></u>

The analysis of cost or valuation of the above assets at 31st December 2007 is as follows:

At cost	23,413	717,613	–	1,220,520	1,961,546
At valuation - 2007	–	–	145,000	–	145,000
	<u><u>23,413</u></u>	<u><u>717,613</u></u>	<u><u>145,000</u></u>	<u><u>1,220,520</u></u>	<u><u>2,106,546</u></u>

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates. The fair value represents the amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Fixed assets (continued)

(a) Fixed assets (continued)

Group

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation					
As at 1st January 2006	23,372	1,167,841	103,870	1,073,246	2,368,329
Additions	–	21,598	–	360,546	382,144
Disposals	–	(420,926)	–	(234,653)	(655,579)
Fair value adjustment	–	–	7,064	–	7,064
Exchange adjustments	2	–	–	3	5
	<u>23,374</u>	<u>768,513</u>	<u>110,934</u>	<u>1,199,142</u>	<u>2,101,963</u>
At 31st December 2006					
Accumulated depreciation and impairment					
As at 1st January 2006	16,829	434,917	–	712,981	1,164,727
Charge for the year	112	49,179	–	90,924	140,215
Disposals	–	(169,736)	–	(105,502)	(275,238)
Exchange adjustments	1	–	–	5	6
	<u>16,942</u>	<u>314,360</u>	<u>–</u>	<u>698,408</u>	<u>1,029,710</u>
At 31st December 2006					
Net book value					
At 31st December 2006	<u>6,432</u>	<u>454,153</u>	<u>110,934</u>	<u>500,734</u>	<u>1,072,253</u>

The analysis of cost or valuation of the above assets at 31st December 2006 is as follows:

At cost	23,374	768,513	–	1,199,142	1,991,029
At valuation - 2006	–	–	110,934	–	110,934
	<u>23,374</u>	<u>768,513</u>	<u>110,934</u>	<u>1,199,142</u>	<u>2,101,963</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Fixed assets (continued)

(a) Fixed assets (continued)

Bank

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation					
As at 1st January 2007	23,374	768,513	110,934	1,157,888	2,060,709
Additions	39	6,334	–	309,150	315,523
Disposals	–	(5,858)	–	(265,276)	(271,134)
Disposal of Mainland branches	–	(51,376)	–	(19,845)	(71,221)
Fair value adjustment	–	–	34,066	–	34,066
Exchange adjustments	–	–	–	26	26
At 31st December 2007	<u>23,413</u>	<u>717,613</u>	<u>145,000</u>	<u>1,181,943</u>	<u>2,067,969</u>
Accumulated depreciation and impairment					
As at 1st January 2007	16,942	314,360	–	682,080	1,013,382
Charge for the year	102	33,662	–	103,919	137,683
Disposals	–	(2,954)	–	(200,161)	(203,115)
Disposal of Mainland branches	–	(45,283)	–	(7,638)	(52,921)
Exchange adjustments	–	–	–	4	4
At 31st December 2007	<u>17,044</u>	<u>299,785</u>	<u>–</u>	<u>578,204</u>	<u>895,033</u>
Net book value					
At 31st December 2007	<u><u>6,369</u></u>	<u><u>417,828</u></u>	<u><u>145,000</u></u>	<u><u>603,739</u></u>	<u><u>1,172,936</u></u>

The analysis of cost or valuation of the above assets at 31st December 2007 is as follows:

At cost	23,413	717,613	–	1,181,943	1,922,969
At valuation - 2007	–	–	145,000	–	145,000
	<u><u>23,413</u></u>	<u><u>717,613</u></u>	<u><u>145,000</u></u>	<u><u>1,181,943</u></u>	<u><u>2,067,969</u></u>

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates. The fair value represents the amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Fixed assets (continued)

(a) Fixed assets (continued)

Bank

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation					
As at 1st January 2006	23,372	1,167,841	103,870	1,047,877	2,342,960
Additions	–	21,598	–	344,569	366,167
Disposals	–	(420,926)	–	(234,561)	(655,487)
Fair value adjustment	–	–	7,064	–	7,064
Exchange adjustments	2	–	–	3	5
At 31st December 2006	23,374	768,513	110,934	1,157,888	2,060,709
Accumulated depreciation and impairment					
As at 1st January 2006	16,829	434,917	–	699,459	1,151,205
Charge for the year	112	49,179	–	88,114	137,405
Disposals	–	(169,736)	–	(105,498)	(275,234)
Exchange adjustments	1	–	–	5	6
At 31st December 2006	16,942	314,360	–	682,080	1,013,382
Net book value					
At 31st December 2006	6,432	454,153	110,934	475,808	1,047,327

The analysis of cost or valuation of the above assets at 31st December 2006 is as follows:

At cost	23,374	768,513	–	1,157,888	1,949,775
At valuation - 2006	–	–	110,934	–	110,934
	23,374	768,513	110,934	1,157,888	2,060,709

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Fixed assets (continued)

(b) Operating lease arrangements

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to five years, and may contain an option to renew the lease after that date at which time all terms will be renegotiated. None of the leases include contingent rentals.

During the year, HK\$4,536,000 (2006: HK\$3,919,000) was recognised as rental income in the income statement in respect of operating leases.

All of the investment properties held by the Group and the Bank are located in Hong Kong with leases of over 50 years.

At 31st December, the Group and the Bank had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Not later than one year	5,964	3,053
Later than one year and not later than five years	10,441	–
	16,405	3,053

25 Lease premium for land

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Net book value at 1st January	2,086,721	2,344,011
Disposals	(6,190)	(209,266)
Amortisation	(47,598)	(48,024)
Net book value at 31st December	2,032,933	2,086,721

The Group's interests in leasehold land represent prepaid operating lease payment and their net book values are analysed as follows:

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
In Hong Kong held on :		
– Leases of over 50 years	309,902	314,190
– Leases of between 10 to 50 years	1,723,031	1,772,531
	2,032,933	2,086,721

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 Trading liabilities

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Trading liabilities		
– Short positions in securities	7,519,879	6,655,669
	<u>7,519,879</u>	<u>6,655,669</u>

27 Financial liabilities designated at fair value through profit or loss

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Financial liabilities designated at fair value through profit or loss		
– Structured investment deposits (Note 28)	6,556,839	12,899,635
– Certificates of deposit issued (Note 29)	431,124	746,618
	<u>6,987,963</u>	<u>13,646,253</u>

Changes in the fair value of the financial liabilities designated at fair value through profit or loss are attributable mainly to equity, interest and currency risk changes. The remaining change that is not attributable to changes in market conditions that give rise to market risk is considered not significant. Net unrealised gain for the financial liabilities designated at fair value through profit or loss amounted to HK\$395,787,000 as at 31st December 2007 (2006: HK\$709,831,000).

28 Deposits from customers

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Deposits from customers		
– Reported in the balance sheets	181,069,821	154,264,360
– Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 27)	6,556,839	12,899,635
	<u>187,626,660</u>	<u>167,163,995</u>
Analysed by:		
– Demand deposits and current accounts	10,198,081	10,432,384
– Savings deposits	38,299,049	33,337,333
– Time, call and notice deposits	139,129,530	123,394,278
	<u>187,626,660</u>	<u>167,163,995</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 Certificates of deposit issued

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Certificates of deposit issued		
– at amortised cost	6,445	448,880
– at fair value under fair value hedge	611,350	2,064,741
As stated in the balance sheets	617,795	2,513,621
Reported as financial liabilities designated at fair value (Note 27)	431,124	746,618
	1,048,919	3,260,239

30 Other liabilities

	Group		Bank	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short positions in securities	1,252,741	2,222,284	1,252,741	2,222,284
Other liabilities and provisions	8,420,006	4,767,385	7,873,942	4,255,669
	9,672,747	6,989,669	9,126,683	6,477,953

31 Taxation

(a) Current income tax liabilities

	Group		Bank	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax payable	325,885	299,997	325,587	302,048
Overseas tax payable	12,408	6,416	11,495	5,552
	338,293	306,413	337,082	307,600

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 Taxation (continued)

(b) Deferred income tax

The movements in the deferred income tax assets are as follows:

	Group		Bank	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
At 1st January	82,942	85,920	84,125	82,606
Deferred income tax charged to income statement (Note 12(a))	(16,850)	(25,121)	(16,030)	(20,624)
Deferred income tax (debited)/credited to equity (Note 34(c))	(7,627)	22,143	(7,627)	22,143
At 31st December	<u>58,465</u>	<u>82,942</u>	<u>60,468</u>	<u>84,125</u>

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

	Group		Bank	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Deferred income tax assets				
Impairment allowances	140,859	142,034	138,701	139,783
Revaluation of available-for-sale financial investments	14,516	22,143	14,516	22,143
Tax losses	–	702	–	–
	<u>155,375</u>	<u>164,879</u>	<u>153,217</u>	<u>161,926</u>
Deferred income tax liabilities				
Accelerated depreciation allowances	71,261	62,250	67,100	58,114
Fair value adjustment on investment properties	25,649	19,687	25,649	19,687
	<u>96,910</u>	<u>81,937</u>	<u>92,749</u>	<u>77,801</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of set off and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Group		Bank	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Deferred income tax assets	155,375	164,879	153,217	161,926
Deferred income tax liabilities	(96,910)	(81,937)	(92,749)	(77,801)
	<u>58,465</u>	<u>82,942</u>	<u>60,468</u>	<u>84,125</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 Subordinated liabilities

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Floating rate subordinated loan	4,212,621	4,198,878
7.75% fixed rate subordinated notes	–	2,034,279
	<u>4,212,621</u>	<u>6,233,157</u>

The subordinated loan ('Loan') with principal amount of US\$540,000,000 was obtained by the Bank from its intermediate holding company, DBS Bank Ltd., on 12th December 2006. The Loan will mature on 12th December 2016 with an optional repayment date on 13th December 2011. Interest is payable quarterly and is charged at LIBOR plus 0.35% per annum before the optional repayment date and subsequently at LIBOR plus 0.85%.

The 7.75% fixed rate subordinated notes were redeemed by the Bank on its maturity date of 24th January 2007.

33 Share capital

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Authorised, issued and fully paid 5,200,000,000 shares of HK\$1.00 each	<u>5,200,000</u>	<u>5,200,000</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 Reserves

	Group		Bank	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Share premium				
At 1st January and 31st December	595,503	595,503	595,503	595,503
(b) Capital reserve				
At 1st January and 31st December	11,636	11,636	–	–
(c) Investments revaluation reserve				
At 1st January	(133,151)	(267,927)	(133,151)	(267,927)
Change in fair value of available-for-sale financial investments	93,470	181,410	93,470	181,410
Reserve transferred to income statement upon disposal of available-for-sale financial investments	(23,437)	(68,777)	(23,437)	(68,777)
Deferred income tax (Note 31(b))	(7,627)	22,143	(7,627)	22,143
At 31st December	(70,745)	(133,151)	(70,745)	(133,151)
(d) General reserve				
At 1st January and 31st December	2,398,792	2,398,792	2,283,928	2,283,928
(e) Retained earnings				
At 1st January	7,724,220	10,670,807	7,626,513	10,601,246
Profit attributable to shareholders	2,923,090	3,120,724	2,899,775	3,092,388
Dividends (Note 14)	(1,300,000)	(6,067,000)	(1,300,000)	(6,067,000)
Exchange differences arising from translation of net investments in overseas branches and subsidiaries	1,056	(311)	1,087	(121)
At 31st December	9,348,366	7,724,220	9,227,375	7,626,513
Total reserves	12,283,552	10,597,000	12,036,061	10,372,793

The investments revaluation reserve does not represent realised profits and are not available for distribution.

The general reserve is comprised of transfers from the previous years' retained earnings and is distributable.

As at 31st December 2007, HK\$405,194,000 (2006: HK\$328,484,000) was earmarked as the regulatory reserve from the retained earnings. 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 Hong Kong Monetary Authority.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 Fair value of financial assets and liabilities not carried at fair value

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

(a) *Placements with and advances to banks*

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

(b) *Advances to customers*

The fair value approximates their carrying amounts.

(c) *Deposits from banks and 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 fixed interest-bearing deposits and other borrowings is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

(d) *Certificates of deposit issued*

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

(e) *Subordinated liabilities*

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

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Notes to consolidated cash flow statement

(a) Reconciliation of profit before income tax to net cash inflow from operating activities

	2007 HK\$'000	2006 HK\$'000
Profit before income tax	3,516,763	3,693,907
Net gain on disposal of fixed assets and lease premium for land	(15,024)	(335,927)
Fair value adjustment on investment properties	(34,066)	(7,064)
Impairment allowances on advances to customers	374,766	404,834
Discounting effect released from impairment allowances	(15,932)	(23,211)
Write-off of fixed assets	1,674	11,589
Depreciation	143,799	140,215
Amortisation of lease premium for land	47,598	48,024
Advances written off net of recoveries	(274,665)	(352,913)
Revaluation for certificates of deposit issued	16,696	52,659
Amortisation of discount / (premium) on certificates of deposit issued	65	(60)
Interest expense for certificates of deposit issued	92,176	163,730
Interest expense for subordinated liabilities	256,967	172,348
	<hr/>	<hr/>
Profit before changes in operating assets and liabilities	4,110,817	3,968,131
Net increase in cash and balances with banks	(2,160,743)	(564,737)
Net decrease / (increase) in placements with and advances to banks	3,603,479	(10,790,729)
Net decrease / (increase) in trading securities	745,819	(1,684,270)
Net increase in advances to customers	(10,526,471)	(6,745,746)
Net decrease / (increase) in available-for-sale financial investments	8,767,143	(8,270,732)
Net increase in other assets and positive replacement values	(5,367,716)	(1,038,543)
Net increase in deposits and balances from banks	1,092,802	658,695
Net increase in deposits from customers	22,700,485	25,379,370
Net increase in amount due to a jointly controlled entity	46,936	991
Net increase in other liabilities and negative replacement values	4,095,625	504,072
Net increase in trading liabilities	864,210	1,683,870
Exchange differences and other adjustments	21,591	(469)
	<hr/>	<hr/>
Cash inflow from operating activities before income tax	27,993,977	3,099,903
Hong Kong profits tax paid	(530,011)	(319,134)
Overseas tax paid	(9,113)	(5,879)
Hong Kong profits tax refunded	–	62
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>27,454,853</u>	<u>2,774,952</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Notes to consolidated cash flow statement (continued)

(b) Analysis of changes in financing activities during the year

	Share capital and share premium HK\$'000	Certificates of deposit issued HK\$'000	Subordinated liabilities HK\$'000
Balance as at 1st January 2006	5,795,503	6,269,719	2,028,445
Cash inflow from financing activities	–	13,000	4,198,878
Cash outflow from financing activities	–	(3,075,326)	–
Revaluation	–	52,659	–
Amortisation of premium	–	(60)	–
Effect of foreign exchange movements	–	247	5,834
	<hr/>	<hr/>	<hr/>
Balance as at 31st December 2006	5,795,503	3,260,239	6,233,157
Cash outflow from financing activities	–	(2,228,315)	(2,041,120)
Revaluation	–	16,696	–
Amortisation of discount	–	65	–
Effect of foreign exchange movements	–	234	20,584
	<hr/>	<hr/>	<hr/>
Balance as at 31st December 2007	<u>5,795,503</u>	<u>1,048,919</u>	<u>4,212,621</u>

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

	2007 HK\$'000	2006 HK\$'000
Cash and balances with banks repayable with original maturity within three months	32,695,727	16,372,978
Placements with and advances to banks repayable with original maturity within three months	8,238,014	4,821,345
Treasury bills repayable with original maturity within three months	3,786,093	2,654,523
	<hr/>	<hr/>
	<u>44,719,834</u>	<u>23,848,846</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 Derivative financial instruments and hedging activities

(a) Derivatives

The Group uses financial instruments 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 bonds, 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:

2007	Group and Bank			
	Contract/ notional amount HK\$'000	Credit risk weighted amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
Derivatives held for trading				
Exchange rate contracts				
– Forwards	113,639,502	1,008,364	351,772	309,986
– Swaps	100,462,064	273,568	169,870	167,675
– Options purchased	140,193,481	2,197,424	760,676	–
– Options written	141,093,445	–	–	760,760
	<u>495,388,492</u>	<u>3,479,356</u>	<u>1,282,318</u>	<u>1,238,421</u>
Interest rate contracts				
– Futures	7,309,522	–	1,421	1,998
– Swaps	86,575,026	143,198	898,912	853,193
– Options purchased	3,359,926	540	4,741	–
– Options written	3,359,926	–	–	4,741
	<u>100,604,400</u>	<u>143,738</u>	<u>905,074</u>	<u>859,932</u>
Equity contracts	<u>26,583,054</u>	<u>473,373</u>	<u>1,017,662</u>	<u>1,017,545</u>
Total derivatives held for trading	<u><u>622,575,946</u></u>	<u><u>4,096,467</u></u>	<u><u>3,205,054</u></u>	<u><u>3,115,898</u></u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u>1,115,085</u>	<u>17,251</u>	<u>10,065</u>	<u>23,949</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 Derivative financial instruments and hedging activities (continued)

(a) Derivatives (continued)

2006	Group and Bank			
	Contract/ notional amount HK\$'000	Credit risk weighted amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
Derivatives held for trading				
Exchange rate contracts				
– Forwards	93,283,171	531,954	475,702	470,337
– Swaps	55,620,748	126,413	54,242	67,729
– Options purchased	92,196,921	767,445	536,178	–
– Options written	91,331,150	–	–	533,479
	<u>332,431,990</u>	<u>1,425,812</u>	<u>1,066,122</u>	<u>1,071,545</u>
Interest rate contracts				
– Futures	13,889,315	–	897	3,515
– Swaps	92,690,324	118,520	1,201,294	1,024,844
– Options purchased	7,473,562	6,455	11,299	–
– Options written	7,473,562	–	–	11,299
	<u>121,526,763</u>	<u>124,975</u>	<u>1,213,490</u>	<u>1,039,658</u>
Equity contracts	<u>11,218,862</u>	<u>100,856</u>	<u>73,589</u>	<u>73,514</u>
Total derivatives held for trading	<u><u>465,177,615</u></u>	<u><u>1,651,643</u></u>	<u><u>2,353,201</u></u>	<u><u>2,184,717</u></u>
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	<u>2,415,720</u>	<u>33,542</u>	<u>15,622</u>	<u>25,516</u>

The above amounts include derivatives and embedded derivatives and are shown on a gross basis after taking into account the effect of bilateral netting arrangements. The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk.

As at 31st December 2007, the credit risk weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules, which came into operation on 1st January 2007, and the guidelines issued by the Hong Kong Monetary Authority. As at 31st December 2006, the credit risk weighted amount was calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amount calculated is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 Derivative financial instruments and hedging activities (continued)

(b) Hedging activities

At 31st December 2007, the Group has interest rate swap agreements in place with a notional amount of HK\$1,115,085,000 (2006: HK\$2,415,720,000) to hedge the exposure arising from changes in the fair value as a result of market interest rate fluctuation of certain available-for-sale financial investments and certificates of deposit issued. The hedging derivatives and hedged items have the same critical terms.

The losses on the hedging instruments are HK\$17,736,000 (2006: gains of HK\$14,448,000). The gains on the hedged items attributable to the hedged risk are HK\$17,579,000 (2006: losses of HK\$17,900,000).

38 Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	Group and Bank	
	2007	As restated 2006
	HK\$'000	HK\$'000
Direct credit substitutes	1,186,065	1,080,015
Transaction-related contingencies	678,840	323,871
Trade-related contingencies	5,857,805	5,851,039
Forward forward deposits placed	13,381,189	13,428,634
Other commitments with an original maturity of not more than one year	1,494,457	1,674,025
Other commitments with an original maturity of more than one year	90,252	1,519,686
Other commitments which are unconditionally cancellable	89,002,484	77,663,723
	<u>111,691,092</u>	<u>101,540,993</u>
Credit risk weighted amount	<u>5,215,336</u>	<u>5,667,238</u>

In November 2002, the Group entered into a ten-year outsourcing agreement with IBM with respect to the provision of information technology and related support to the Group's operation in Hong Kong. There are various termination clauses contained within the agreement that under certain circumstances IBM could require the Group to pay a penalty on early termination of the contract. The exact amount of penalty cannot be reliably determined as it is dependent upon business volumes over the period of the contract and on the timing of the termination itself.

In February 2002, the Bank entered into a ten-year Life Insurance Bancassurance Distribution Agreement ('Agreement') with Aviva Life Insurance Company Limited. Under the Agreement, the Bank has to pay a termination fee if the Bank terminates the Agreement. The amount of termination fee payable as at 31st December 2007 is determined in accordance with the schedule of termination fees included in the Agreement, and ranges from HK\$38,000,000 to HK\$89,000,000, depending on when the Agreement is terminated.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 Capital and lease commitments

(a) Capital commitments

Capital commitments outstanding at the balance sheet date but not yet incurred are as follows:

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Expenditure contracted but not provided for	42,515	36,741
Expenditure authorised but not contracted for	446,201	244,852
	488,716	281,593

(b) Lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group and Bank			
	2007		2006	
	Properties	Others	Properties	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	185,990	12,394	150,032	11,060
After 1 year but within 5 years	377,774	13,779	194,504	16,217
Over 5 years	298,541	–	167	–
	862,305	26,173	344,703	27,277

40 Assets pledged as security

The Group has liabilities secured by assets deposited with central depositories to facilitate settlement operations. The aggregate amount of secured liabilities and the nature and carrying amounts of the assets pledged as security are as follows:

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Secured liabilities – short positions in securities (Notes 26 and 30)	8,772,620	8,877,953
Assets pledged as security		
– Treasury bills	6,828,192	6,308,026
– Other securities	4,112,518	4,795,921
	10,940,710	11,103,947

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management

Risk governance

Under the Group's Integrated Risk Framework, the Board of Directors, through the Board Risk Management Committee, oversees the establishment of robust enterprise-wide risk management policies and processes. Where necessary, the Group sets risk appetite limits to guide risk-taking within the Group.

Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to the risk appetite limits. To provide risk oversight, senior management risk committees are mandated to focus on specific risk areas. These oversight committees are the Greater China Market Risk Committee, the Greater China Credit Risk Committee, the Hong Kong Asset and Liability Committee, the Greater China Operational Risk Committee and the Greater China Commitments and Conflicts Committee. The roles, functions and compositions of these committees are disclosed in Note 1 of the unaudited supplementary information.

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with risk takers, independent control functions provide senior management with a timely assessment of key risk exposures and the associated management responses. These units also recommend risk appetite and control limits for approval which is in line with the Integrated Risk Framework.

(a) Credit risk

Credit risk is the potential earnings volatility caused by obligors' inability and / or unwillingness to fulfill their contractual debt obligations. Senior management sets the overall direction and policy for managing credit risk at the Group level. In so doing, it directs the risk appetite and underwriting activities for various countries, industries and counterparties taking into account factors such as prevailing business and economic conditions. The Core Credit Risk Policy and the accompanying supplemental policies set forth the principles by which the Group conducts its credit risk underwriting activities. The Greater China Credit Risk Committee serves as the executive forum for overseeing all aspects of credit risk taking including framework, limit management, policies, processes, methodologies and systems.

Exposure to credit risk arises from lending, sales and trading as well as derivative activities. It also arises from participation in payment transactions and securities settlements.

Lending exposures are typically represented by the notional value or principal amount of on balance sheet financial instruments. Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are of contingent nature. Documentary and commercial letters of credit, which are undertakings by the Group on behalf of customers, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from direct borrowing.

Commitments to extend credit include unused portions of loan commitments, guarantees, contingencies or letters of credit. The majority of unused commitments are contingent upon customers observing or meeting certain credit terms and conditions.

At any one time, the credit exposure of a derivative transaction is limited to the positive marked-to-market value to the Group, which in general is only a fraction of the derivative contract or notional amount used to express the volume of instruments. This credit exposure, together with potential exposures from market movements, is managed as part of the overall lending limits to the counterparties. Credit exposures on these instruments are usually unsecured, except where the Group enters into collateralised margin transactions with counterparties. The Group currently uses the current exposure method for the purpose of providing capital for such counterparty exposures.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

The risk management of the exposures is conducted through a sound, well-defined credit granting process which includes the assessment of repayment likelihood and the establishment of appropriate credit limits. The Group uses various internal and external risk rating systems (credit scorecards, customer risk grading and bureau scores) to control the level of credit risk accepted by the Group. Business units and credit approvers have the responsibility to ensure that credits are properly assessed and classified. Business units also assume the responsibility to ensure all crucial information is included in the application for the purpose of assessment and approval.

The Group adopts a multi-level credit approval process requiring loan approval at successively higher levels and / or committees (as delegated) depending on, among other things, the size and nature of the proposed transactions. Exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits) by credit management units at the transaction and the portfolio levels, as appropriate.

In addition to the consideration of the primary recourse to the obligor for the credit risk underwritten, the employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and / or third party support as well as the use of credit derivatives to hedge or transfer risk to other third parties form an integral part of the credit risk management process. Some specific mitigation measures are outlined below:

(i) Collaterals

Where possible, the Group takes collateral as a secondary recourse to the borrower. The collateral includes cash, marketable securities, properties, trade receivables, inventory, equipment and other physical collateral. The Group may also take fixed and floating charges on assets of companies. It has put in place policies which govern the determination of eligibility of various collateral to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigations. For collateral taken for global financial market operations, the collateral is marked to market on a mutually agreed period with the respective counterparties. For collateral taken for commercial banking activities, the collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. Such requirements are clearly documented in policies. In general, the Group considers the collateral it has taken as well diversified.

(ii) Master netting arrangements

The Group further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis.

(iii) Other risk mitigations

In addition, the Group also uses guarantees, credit derivatives and credit insurance as credit risk mitigations. Whilst the Group may accept guarantees from any counterparty, it sets a threshold internally for considering guarantors to be eligible for credit risk mitigation. Credit derivatives are used as credit risk mitigations mainly in structured transactions and for global financial market operations.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk

The maximum exposure to credit risk is limited to the amounts on the balance sheet as well as commitments to extend credit and contingencies, without taking into account the fair value of any collateral and master netting arrangements. The table below shows the maximum exposure to credit risk for the components of the balance sheet, contingencies and commitments.

	Group	
	2007	2006
	HK\$'000	HK\$'000
Balances with banks	36,009,221	17,625,002
Placements with and advances to banks	17,753,028	18,133,327
Trading securities	7,575,988	6,625,849
Positive replacement values	2,749,958	1,463,111
Advances to customers less impairment allowances	122,412,304	117,109,840
Available-for-sale financial investments	36,142,338	45,403,836
Other assets	6,258,152	2,224,659
Contingent liabilities	7,722,710	7,254,925
Commitments	103,968,382	94,286,068
	<u>340,592,081</u>	<u>310,126,617</u>

Advances to customers by credit quality

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Neither past due nor subject to individual impairment allowances assessment	116,209,079	112,116,498
Past due but not subject to individual impairment allowances assessment	6,069,743	4,871,331
Subject to individual impairment allowances assessment	1,818,771	1,777,225
	<u>124,097,593</u>	<u>118,765,054</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Advances to customers by credit quality (continued)

- (i) Analysis of advances to customers that were neither past due nor subject to individual impairment allowances assessment by loan grading

	Group and Bank		
	Pass HK\$'000	Special mention HK\$'000	Total HK\$'000
2007			
Manufacturing	8,586,291	576,258	9,162,549
Building and construction	15,619,681	294,381	15,914,062
Housing loans	38,607,509	86,904	38,694,413
General commerce	22,500,203	1,600,110	24,100,313
Transportation, storage and communication	9,973,629	48,006	10,021,635
Financial institutions, investments and holding companies	768,170	–	768,170
Professionals and private individuals (except housing loans)	12,538,029	150,773	12,688,802
Others	4,780,626	78,509	4,859,135
	<u>113,374,138</u>	<u>2,834,941</u>	<u>116,209,079</u>

	Group and Bank		
	Pass HK\$'000	Special mention HK\$'000	Total HK\$'000
2006			
Manufacturing	10,616,617	308,177	10,924,794
Building and construction	13,506,141	167,947	13,674,088
Housing loans	38,816,091	49,552	38,865,643
General commerce	22,019,979	917,211	22,937,190
Transportation, storage and communication	9,641,611	23,419	9,665,030
Financial institutions, investments and holding companies	572,795	1,285	574,080
Professionals and private individuals (except housing loans)	11,136,921	15,526	11,152,447
Others	4,244,873	78,353	4,323,226
	<u>110,555,028</u>	<u>1,561,470</u>	<u>112,116,498</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Advances to customers by credit quality (continued)

(ii) Advances to customers that were past due but not subject to individual impairment allowances assessment

2007	Past due				
	Less than 1 month	1-2 months	2-3 months	More than 3 months	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group and Bank					
Manufacturing	756,310	92,445	45,453	–	894,208
Building and construction	777,699	11,342	120,145	–	909,186
Housing loans	1,411,468	118,117	24,477	–	1,554,062
General commerce	1,195,691	72,498	59,679	–	1,327,868
Transportation, storage and communication	479,848	9,311	29	–	489,188
Financial institutions, investments and holding companies	1,985	–	–	–	1,985
Professionals and private individuals (except housing loans)	345,749	38,697	2,488	177,718	564,652
Others	305,756	18,717	4,121	–	328,594
	<u>5,274,506</u>	<u>361,127</u>	<u>256,392</u>	<u>177,718</u>	<u>6,069,743</u>
	Past due				
2006					
Group and Bank	Less than 1 month	1-2 months	2-3 months	More than 3 months	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacturing	390,715	40,560	42,040	–	473,315
Building and construction	404,949	75,685	15,875	–	496,509
Housing loans	1,437,546	96,514	23,028	–	1,557,088
General commerce	723,214	30,677	8,692	–	762,583
Transportation, storage and communication	696,003	2,338	–	–	698,341
Financial institutions, investments and holding companies	3,838	3,045	1	–	6,884
Professionals and private individuals (except housing loans)	380,380	47,471	24,298	149,920	602,069
Others	229,471	35,927	9,144	–	274,542
	<u>4,266,116</u>	<u>332,217</u>	<u>123,078</u>	<u>149,920</u>	<u>4,871,331</u>

Advances to customers that were past due by more than 3 months represent individually insignificant advances which are subject to collective impairment allowances assessment.

The fair value of collateral pledged for the advances to customer that were past due but not subject to individual impairment allowances assessment amounted to HK\$7,145,331,000 as at 31st December 2007 (2006: HK\$5,596,379,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Advances to customers by credit quality (continued)

(iii) Advances to customers that were subject to individual impairment allowances assessment

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Manufacturing	388,978	302,086
Building and construction	166,507	178,047
Housing loans	240,277	377,779
General commerce	807,544	644,232
Transportation, storage and communication	24,951	42,992
Financial institutions, investments and holding companies	714	5,969
Professionals and private individuals (except housing loans)	58,097	86,323
Others	131,703	139,797
	<u>1,818,771</u>	<u>1,777,225</u>

	Group and Bank			
	2007		2006	
	HK\$'000	% of gross advances to customers	HK\$'000	% of gross advances to customers
Gross impaired advances subject to individual impairment allowances assessment	1,818,771	1.47	1,777,225	1.50
Individual impairment allowances	(796,094)		(742,090)	
	<u>1,022,677</u>		<u>1,035,135</u>	
Impaired advances covered by collateral	<u>983,839</u>		<u>977,299</u>	

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

DBS BANK (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
41 Financial risk management (continued)
(a) Credit risk (continued)
Analysis of individual impairment allowances

Group and Bank	As at 1st January 2007 HK\$'000	Amounts written off HK\$'000	Recoveries of advances written off in previous years HK\$'000	Net charge to consolidated income statement HK\$'000	Discounting effect released from impairment allowances HK\$'000	Disposal of Mainland branches HK\$'000	Exchange differences HK\$'000	At 31st December 2007 HK\$'000
Manufacturing	211,100	(106,980)	69	221,390	(3,407)	(30,330)	215	292,057
Building and construction	64,148	(5,778)	–	2,213	(1,459)	–	–	59,124
Housing loans	33,593	(4,904)	20,986	(33,378)	(2,105)	–	–	14,192
General commerce	217,119	(30,882)	2,796	65,899	(7,074)	–	–	247,858
Transportation, storage and communication	8,646	(101)	186	4,136	(219)	–	–	12,648
Financial institutions, investments and holding companies	2,075	(77)	220	(2,092)	(6)	–	–	120
Professionals and private individuals (except housing loans)	68,604	(5,009)	–	(8,099)	(509)	–	–	54,987
Others	136,805	(25,985)	12,807	(7,366)	(1,153)	–	–	115,108
	742,090	(179,716)	37,064	242,703	(15,932)	(30,330)	215	796,094

Group and Bank	As at 1st January 2006 HK\$'000	Amounts written off HK\$'000	Recoveries of advances written off in previous years HK\$'000	Net charge to consolidated income statement HK\$'000	Discounting effect released from impairment allowances HK\$'000	Disposal of Mainland branches HK\$'000	Exchange differences HK\$'000	At 31st December 2006 HK\$'000
Manufacturing	243,362	(123,117)	85	93,360	(3,945)	–	1,355	211,100
Building and construction	37,868	(3,587)	–	32,192	(2,325)	–	–	64,148
Housing loans	44,283	(2,290)	21,238	(24,507)	(4,934)	–	(197)	33,593
General commerce	169,148	(29,186)	117	85,509	(8,414)	–	(55)	217,119
Transportation, storage and communication	10,149	(7,488)	916	5,631	(561)	–	(1)	8,646
Financial institutions, investments and holding companies	1,019	–	429	705	(78)	–	–	2,075
Professionals and private individuals (except housing loans)	29,083	(2,944)	5	43,587	(1,127)	–	–	68,604
Others	158,386	(73,931)	90	53,476	(1,827)	–	611	136,805
	693,298	(242,543)	22,880	289,953	(23,211)	–	1,713	742,090

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Geographical concentrations

Over 90% of the gross advances to customers and the related impaired advances, overdue advances, individual impairment allowances and collective impairment allowances were located in Hong Kong after taking into account the transfer of risk. In general, transfer of risk applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

(b) Market risk

The Group separates exposures to market risk into two main categories for risk management: trading portfolio and non-trading portfolio. Value at Risk ('VaR') and sensitivity analyses are applied in measuring, managing and monitoring market risk.

(i) Trading market risk

Trading market risk arises from the impact on trading book positions of changes in:

- foreign exchange rates;
- general market interest rate yields and credit spreads.

It also includes the impact from changes in the correlations and volatilities of the above risk factors.

The Group manages trading market risk in the course of market-making, structuring and packaging products for investors and issuers, as well as to benefit from market opportunities.

The Group's policies and processes for managing trading market risk are approved by senior management and comprise the following elements:

- trading book policy and prudent valuation framework;
- types of market risk to be covered, and the risk metrics and methodologies to be used to capture such risks;
- roles and responsibilities of relevant functions in managing trading market risks;
- determination of the Group's trading market risk appetite by the Board of Directors and allocation of risk limits to risk-takers;
- independent monitoring of market risk appetite and control limits;
- assurance of valuation models and validation of risk models; and
- new product process through which risk issues are identified and addressed before a new product is launched.

The Greater China Market Risk Committee ('GCMRC') serves as the executive forum for overseeing all aspects of market risk taking including framework, limit management, policies, processes, methodologies and systems. The roles, functions and compositions of the Greater China Market Risk Committee are disclosed in Note 1 of the unaudited supplementary information.

The principal market risk appetite measures for trading market risk are VaR and stress loss. This is complemented by more granular risk and loss limits such as risk sensitivity-based limits, and management action triggers to measure and control trading exposures.

The Group's trading VaR methodology uses a historical simulation approach (at a 99% confidence level over a one-day holding period, using a 2-year historical observation period) to forecast the Group's trading market risk. The Group computes VaR (in Singaporean Dollars 'SG\$') daily. Each day's VaR forecast is back-tested against the profit or loss of the trading book in order to monitor its predictive power.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(b) Market risk (continued)

(i) Trading market risk (continued)

Although VaR provides valuable insights, no single risk measure can capture all aspects of trading market risk. To complement the VaR measure, regular stress testing is carried out.

Prior to 1st September 2006, the Group used a parametric methodology for VaR. The same confidence interval and holding period were applied under parametric VaR and the VaR estimates are hence on a comparable basis between the two methodologies.

The tables below provide the year end, average, highest and lowest daily VaR for the trading market risk exposure of the Group for the years of 2007 and 2006 respectively:

In SG\$'million	As at 31st December 2007	2007		
		Average	Highest	Lowest
Total	<u>1.7</u>	<u>1.0</u>	<u>2.1</u>	<u>0.2</u>

In SG\$'million	As at 31st December 2006	2006		
		Average	Highest	Lowest
Total	<u>0.7</u>	<u>1.3</u>	<u>2.3</u>	<u>0.6</u>

The tables below provide the year end, average, highest and lowest month-end VaR by risk type for the trading market risk exposure of the Group for the years of 2007 and 2006 respectively:

In SG\$'million	As at 31st December 2007	2007		
		Average	Highest	Lowest
Interest rate	0.5	0.4	0.6	0.3
Foreign exchange	1.7	0.9	1.7	0.3
Diversification	(0.5)	(0.3)	–	–
Total	<u>1.7</u>	<u>1.0</u>	<u>1.7</u>	<u>0.5</u>

In SG\$'million	As at 31st December 2006	2006		
		Average	Highest	Lowest
Interest rate	0.6	1.0	1.4	0.6
Foreign exchange	0.5	0.6	1.2	0.3
Diversification	(0.4)	(0.5)	–	–
Total	<u>0.7</u>	<u>1.1</u>	<u>1.5</u>	<u>0.6</u>

The highest (and lowest) month-end VaR figures reported for each risk type did not necessarily occur on the same day as the highest (and lowest) reported for the month-end total. A corresponding diversification effect cannot be calculated and is therefore omitted from the above tables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(b) Market risk (continued)

(ii) Non-trading market risk

Non-trading market risk arises from changes in general interest rates, foreign exchange rates and equity prices. Non-trading market risk arises in the course of (a) the Group's management of funds arising from banking intermediation and (b) the Group's banking business and strategic investments. Market risk arises from mismatches in the interest rate profile of customer loans and deposits, from the effect of exchange rate movements on the Group's earnings, capital accounts and investments denominated in foreign currencies and from the effect of changes in equity prices on the carrying value of strategic investments.

To optimise its income and balance sheet management, the Group deploys funds in debt securities or in the interbank market. Derivatives may be used to hedge non-trading market risk. An Investment Framework governs the Group's investment of its surplus funds. The Framework requires these investments to be subject to Board and senior management limits on the portfolio size and credit quality. Interest rate risk arises in the course of managing surplus funds. This risk is monitored using risk sensitivity measures and valuation action triggers.

Senior management committees oversee non-trading market risk and allocate core limits to risk taking units. The Hong Kong Asset and Liability Committee is responsible for managing the risks, including the setting of operational limits and guidelines to refine risk management, which is consistent with the Asset and Liability Management Policy.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or the interest income of a portfolio will fluctuate due to changes in market interest rates. Examples of financial assets and liabilities which have fixed or floating interest rate exposure include debt securities, loans and derivatives.

Interest rate risk arising from mismatches in the interest rate profile of customer loans and deposits has several aspects: basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. This risk is subject to the Group's Asset and Liability Management Policy. To monitor this risk, the Group uses various tools, including sensitivity analysis.

The Group manages the sensitivity of the net interest income ('NII') of its consolidated non-trading positions. The Group's consolidated non-trading interest risk is mainly in USD, HKD and EUR. The NII simulation analysis is as follows:

	Increase /decrease in basis points	Sensitivity of net interest income
		HK\$'000
2007	+25	114,220
	-25	(96,760)
2006	+25	69,214
	-25	(98,064)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(b) Market risk (continued)

(ii) Non-trading market risk (continued)

Currency risk

Foreign currency loans and investments are generally funded in the same foreign currencies. In structural foreign exchange exposures, the Group manages the effect of exchange rate movements on its earnings and capital accounts. For positions in currencies which have high hedging costs or have an illiquid / controlled market, the positions will be reviewed by the Hong Kong Asset and Liability Committee and alternative strategies may be used or left unhedged. The Group's structural foreign exchange exposures as at 31 December 2007 and 2006 were not material.

Equity risk

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 non-trading portfolio as at 31 December 2007 and 2006 were not material and were held for long term investment purpose. They were reported as financial investments in Note 20 to the financial statements and are subject to the accounting and valuation policies set out in Notes 2(c) and 2(e) to the financial statements.

(c) Liquidity risk

Liquidity risk is the risk arising from being unable to fund portfolio assets at reasonable rates due to maturing liabilities or commitments. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturities, extensions of credit and working capital needs. The Group seeks to manage its liquidity to meet its obligations under normal as well as adverse circumstances, and to take advantage of arising lending and investment opportunities.

The Hong Kong Asset and Liability Committee is the primary party responsible for liquidity management based on guidelines approved by the Board Risk Management Committee. Limits are set on maturity mismatches over books under normal and stress scenarios, liquidity ratios and deposit concentration risks. As part of the liquidity management, the Group will set limits to ensure that the funding requirements will not exceed the available funding and liquid assets available for both normal and stress scenarios.

As part of its liquidity risk management, the Group focuses on a number of components, including maintaining sufficient liquid assets, maintaining diversified source of liquidity, preserving necessary funding capacity and contingency planning.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. This analysis includes behavioral assumptions on, inter-alia, customer loans, customer deposits, and reserve assets. This is tested under normal and adverse market scenario conditions.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

The carrying amounts of assets and liabilities analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

2007	Group							Total
	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	
HK\$'million								
Assets								
– Cash and balances with banks	2,139	33,117	835	249	–	–	–	36,340
– Placements with and advances to banks	–	–	12,627	4,197	929	–	–	17,753
– Trading securities	–	3,156	699	1,568	1,702	451	–	7,576
– Advances to customers (before impairment allowances)	8,466	16,215	14,055	12,255	23,491	47,525	2,091	124,098
– Available-for-sale financial investments	–	–	–	–	–	–	–	–
– Debts	–	1,842	2,163	13,459	17,112	1,476	14	36,066
– Equities	–	–	–	–	–	–	76	76
– Others	221	4,732	141	194	239	33	5,055	10,615
Total assets	10,826	59,062	30,520	31,922	43,473	49,485	7,236	232,524
Liabilities								
– Deposits and balances from banks	385	420	–	–	–	–	–	805
– Trading liabilities	–	2,508	1,264	2,138	1,196	414	–	7,520
– Financial liabilities designated at fair value through profit or loss	–	–	852	1,471	1,964	2,701	–	6,988
– Deposits from customers	48,502	94,035	32,780	5,727	26	–	–	181,070
– Certificates of deposit issued	–	–	350	261	7	–	–	618
– Subordinated liabilities	–	–	–	–	–	4,213	–	4,213
– Others	1	8,335	736	399	31	16	4,308	13,826
Total liabilities	48,888	105,298	35,982	9,996	3,224	7,344	4,308	215,040

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

2006	Group							Total
	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	
HK\$'million								
Assets								
– Cash and balances with banks	2,757	13,928	856	355	–	–	–	17,896
– Placements with and advances to banks	–	–	10,385	7,748	–	–	–	18,133
– Trading securities	–	980	429	2,553	2,106	558	–	6,626
– Advances to customers (before impairment allowances)	8,062	12,960	13,505	12,361	23,619	45,980	2,278	118,765
– Available-for-sale financial investments								
– Debts	–	1,557	3,877	21,500	17,472	893	14	45,313
– Equities	–	–	–	–	–	–	91	91
– Others	544	258	151	139	10	–	4,173	5,275
Total assets	11,363	29,683	29,203	44,656	43,207	47,431	6,556	212,099
Liabilities								
– Deposits and balances from banks	1,392	1,005	67	473	–	–	–	2,937
– Trading liabilities	–	124	775	3,982	1,244	531	–	6,656
– Financial liabilities designated at fair value through profit or loss	–	685	1,788	4,981	3,569	2,623	–	13,646
– Deposits from customers	43,774	76,114	24,615	8,712	1,049	–	–	154,264
– Certificates of deposit issued	–	50	199	1,654	611	–	–	2,514
– Subordinated liabilities	–	2,034	–	–	–	4,199	–	6,233
– Others	3	4,882	770	1,034	32	3	3,328	10,052
Total liabilities	45,169	84,894	28,214	20,836	6,505	7,356	3,328	196,302

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

The contractual undiscounted cash flow projections of the Group's financial liabilities, derivatives and off balance sheet exposures analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

2007	Group					Total
	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	
HK\$' million						
Financial liabilities						
– Deposits and balances from banks	385	420	–	–	–	805
– Trading liabilities	–	3,788	2,230	1,305	423	7,746
– Financial liabilities designated at fair value through profit or loss	–	940	1,709	2,687	3,075	8,411
– Deposits from customers	48,503	127,613	5,905	27	–	182,048
– Certificates of deposit issued	–	353	270	7	–	630
– Subordinated liabilities	–	59	185	924	5,155	6,323
– Others	–	9,157	332	364	40	9,893
	48,888	142,330	10,631	5,314	8,693	215,856
Derivatives settled on a gross basis						
– Foreign exchange contracts						
– outflow	–	112,749	84,735	14,306	35	211,825
– inflow	–	(112,773)	(84,739)	(14,303)	(35)	(211,850)
	–	(24)	(4)	3	–	(25)
Off balance sheet exposures						
– Contingent liabilities	–	7,723	–	–	–	7,723
– Commitments	51,820	52,148	–	–	–	103,968
	51,820	59,871	–	–	–	111,691

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

2006	Group					Total
	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	
HK\$'million						
Financial liabilities						
– Deposits and balances from banks	1,392	1,073	482	–	–	2,947
– Trading liabilities	–	923	4,122	1,399	572	7,016
– Financial liabilities designated at fair value through profit or loss	–	2,580	5,344	4,399	3,495	15,818
– Deposits from customers	43,775	101,357	8,988	1,067	–	155,187
– Certificates of deposit issued	–	261	1,732	624	–	2,617
– Subordinated liabilities	–	2,166	171	841	5,270	8,448
– Others	3	5,456	983	6	(10)	6,438
	<u>45,170</u>	<u>113,816</u>	<u>21,822</u>	<u>8,336</u>	<u>9,327</u>	<u>198,471</u>
Derivatives settled on a gross basis						
– Foreign exchange contracts						
– outflow	–	69,553	68,308	1,876	–	139,737
– inflow	–	(69,535)	(68,285)	(1,878)	–	(139,698)
	<u>–</u>	<u>18</u>	<u>23</u>	<u>(2)</u>	<u>–</u>	<u>39</u>
Off balance sheet exposures						
– Contingent liabilities	–	7,255	–	–	–	7,255
– Commitments	49,406	44,880	–	–	–	94,286
	<u>49,406</u>	<u>52,135</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>101,541</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. An operational risk management framework, approved by the Board Risk Management Committee, has been developed with the objective to ensure that operational risks are properly identified, monitored, managed and reported in a structured, systematic and consistent manner.

To manage and control operational risk, the framework encompasses various tools including, control self-assessment, risk event management, key risk indicator monitoring and process risk mapping. Risk events, including any significant incidents that may impact the Group's reputation, are required to be reported based on certain thresholds established. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward looking manner. A process risk mapping framework was developed to identify the key risks and controls of key products / services in an end-to-end transaction cycle.

A key component of the framework is a set of core operational risk standards which provides guidance on the baseline controls to ensure a controlled and sound operating environment. Each new product or service introduced is subject to a rigorous risk review and sign-off process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Variations of existing products or services, outsourcing and process centralization initiatives, are also subject to a similar process. Major operational risk mitigation programmes include business continuity management and global insurance programme. On an annual basis, the Chief Executive Officer provides an attestation to the Board of Directors on the state of business continuity management, including any residual risks.

The Greater China Operational Risk Committee oversees the operational risk management infrastructure, including the framework, policies, processes, information, methodologies and systems. The Committee also performs regular review of the operational risk profiles and approves corporate operational risk policies. Reporting to the Greater China Operational Risk Committee is a sub-committee which provides specific oversight on operational risk issues arising from anti-money laundering.

(e) Capital management

The Bank's capital management policies are to diversify its sources of capital, to allocate capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses and to meet the expectations of key constituencies, including investors and regulators.

The following table sets forth details of capital resources and capital adequacy ratios for the Bank. The Banking Ordinance and the Banking (Capital) Rules (which is effective from 1st January 2007) sets out the current requirements relating to the minimum capital adequacy ratios for an authorized institution incorporated in Hong Kong and the methodology for calculating these ratios. As at 31st December 2006, the calculation of capital adequacy ratios was based on the Third Schedule to the Banking Ordinance. The Bank complied with the capital requirements imposed by the Hong Kong Monetary Authority throughout 2007 and 2006.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(e) Capital management (continued)

	2007 HK\$'000	2006 HK\$'000
Core capital		
Paid up ordinary share capital	5,200,000	5,200,000
Share premium	595,503	595,503
Reserves (eligible for inclusion in core capital)	8,111,942	6,401,005
Profit and loss account	2,871,670	3,086,560
Deduct:		
Deferred tax assets	(60,468)	–
	<u>16,718,647</u>	<u>15,283,068</u>
Deductions from core capital	<u>(112,511)</u>	<u>(120,122)</u>
Core capital after deductions	<u>16,606,136</u>	<u>15,162,946</u>
Supplementary capital		
Reserve on revaluation of land and interests in land	65,953	64,967
Reserve on revaluation of holding of securities not held for trading purposes	(107,762)	(147,437)
Collective impairment allowances	864,184	886,718
Regulatory reserve	405,194	328,484
Term subordinated liabilities	4,212,621	4,605,734
	<u>5,440,190</u>	<u>5,738,466</u>
Deductions from supplementary capital	<u>(112,512)</u>	<u>(120,122)</u>
Supplementary capital after deductions	<u>5,327,678</u>	<u>5,618,344</u>
Total capital base before deductions	22,158,837	21,021,534
Deductions from core capital and supplementary capital	<u>(225,023)</u>	<u>(240,244)</u>
Total capital base after deductions	<u>21,933,814</u>	<u>20,781,290</u>
Risk-weighted assets	<u>145,576,302</u>	<u>130,677,843</u>
Capital adequacy ratio		
Core capital ratio	11.4%	11.6%
Supplementary capital ratio	3.7%	4.3%
Total capital adequacy ratio	<u>15.1%</u>	<u>15.9%</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(e) Capital management (continued)

The Bank is required to compute its capital adequacy ratio on a combined basis that includes the Bank and its overseas branches. The investments in the subsidiaries are deducted from the Bank's core capital and supplementary capital.

The term subordinated liabilities represent the subordinated loan with principal amount of US\$540,000,000 from its intermediate holding company, DBS Bank Ltd., on 12th December 2006. The subordinated loan forms part of the capital base of the Bank with its terms and conditions set out in Note 32 to the financial statements.

42 Material related party transactions

(a) Holding companies and fellow subsidiaries

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

As part of the Bank and 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, taking of deposits, derivatives, contingent liabilities and commitments.

The Group has policies on lending to related parties which define related parties, credit and reporting process, requirements and restrictions on such lending. The lending terms and conditions (including interest rates, commissions, fees, etc.) applying to related parties are at arm's length.

Information relating to income and expenses from these transactions during the year and balances outstanding as at 31st December are set out below:

(i) Income and expenses with holding companies and fellow subsidiaries

	DBS Bank Ltd.		Fellow subsidiaries	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest income	1,116,052	484,710	57,974	–
Interest expense	(375,891)	(61,689)	(81,592)	(55,743)
Net fee and commission income	2,758	(3,434)	1,055	(628)
Net trading income / (loss)	1,178,965	588,646	(59,983)	(12,558)
Other income	7,070	8,379	733	1,001
Total expenses (charged) / recovered	(138,454)	(87,584)	30,912	21,897

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(a) Holding companies and fellow subsidiaries (continued)

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

	Group		Bank	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and balances with banks	21,278,608	8,679,645	21,275,680	8,676,916
Placements with and advances to banks	7,262,871	4,866,678	7,262,871	4,866,678
Positive replacement values	1,156,705	765,406	1,156,705	765,406
Other assets	173,375	186,554	173,375	186,554
	<u>29,871,559</u>	<u>14,498,283</u>	<u>29,868,631</u>	<u>14,495,554</u>
Deposits and balances from banks	58,427	117,580	58,427	117,580
Negative replacement values	2,139,595	1,737,490	2,139,595	1,737,490
Subordinated liabilities	4,212,621	4,198,878	4,212,621	4,198,878
Other liabilities	88,981	67,717	88,981	67,717
	<u>6,499,624</u>	<u>6,121,665</u>	<u>6,499,624</u>	<u>6,121,665</u>

(iii) Contract / notional amount of derivative financial instruments with DBS Bank Ltd. as at 31st December

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Exchange rate contracts	290,013,592	187,657,716
Interest rate contracts	81,138,474	78,880,912
Equity contracts	7,919,440	5,452,189
	<u>379,071,506</u>	<u>271,990,817</u>

(iv) Contingent liabilities and commitments with DBS Bank Ltd.

As at 31st December 2007, the total contingent liabilities and commitments with DBS Bank Ltd. amounted to HK\$15,044,144,000 (2006: HK\$13,829,500,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(a) Holding companies and fellow subsidiaries (continued)

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

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Deposits from customers	315,866	316,205
Other liabilities	48	46
	315,914	316,251

(vi) Balances with fellow subsidiaries as at 31st December

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Cash and balances with banks	344,279	–
Placements with and advances to banks	1,443,788	–
Other assets	46,766	13,562
	1,834,833	13,562
Deposits and balances from banks	369	–
Deposits from customers	2,620,359	1,072,777
Other liabilities	38,036	3,589
	2,658,764	1,076,366

(b) Jointly controlled entity

Under the Joint Venture Agreement (the 'Agreement') between the Bank, Whampoa Limited and Hutchison DBS Card Limited ('HDCL'), the Bank issues and services credit cards under the Compass brand. The Compass credit card receivable balances are included under 'Advances to customers' in the Bank's balance sheet. Under the Agreement, all the revenue, expenses and loan impairment allowances on the Compass cards are recorded in the books of HDCL. The revenues and expenses; assets and liabilities of HDCL are recognised by the Group through proportionate consolidation on a line-by-line basis.

As at 31st December 2007, the amount due from the Bank to the jointly controlled entity is HK\$1,441,531,000 (2006: HK\$1,347,660,000), of which HK\$975,000,000 (2006: HK\$940,000,000) is interest bearing time deposit and the remaining balance is interest free and with no fixed repayment term. Interest expense on the time deposit for the year ended 31st December 2007 paid and payable to HDCL is HK\$69,910,000 (2006: HK\$68,017,000). Gross service fee income from HDCL to the Bank for the year ended 31st December 2007 is HK\$ 87,694,000 (2006: HK\$85,347,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(c) Directors and key management personnel

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

During the year, the Group has banking transactions with directors and key management personnel of the DBSH Group and their close family members, including deposit taking, loans and credit card facilities. These transactions are made in the ordinary course of business and carried out at arm's length commercial terms, and are not material.

- (ii) Compensation of directors and key management personnel

	Group and Bank	
	2007	2006
	HK\$'000	HK\$'000
Directors' fees, salaries and other short term employee compensation	84,450	73,378
Pensions	1,763	1,721
Share based payments	8,604	4,790
	<u>94,817</u>	<u>79,889</u>

(d) DBSH Share Option Plan

Under the DBSH Share Option Plan (the 'Option Plan'), options to subscribe for DBSH ordinary shares could be granted to the Group executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent).

The exercise price of the granted options is equal to the average of the last dealt prices for DBSH shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Limited, for the three consecutive trading days immediately preceding the date of the grant.

The share options vest over a period of 3 years in accordance with a vesting schedule determined by the Compensation Committee of DBSH, and are exercisable after the first anniversary of the date of the grant up to the date of expiration of the options. The share options have a validity period of ten years from the date of grant, unless they have been forfeited or have lapsed prior to that date.

There were no options granted in 2007 and 2006.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(d) DBSH Share Option Plan (continued)

The following table sets out the movements of the unissued ordinary shares of DBSH of par value in Singaporean Dollars ('SG\$') 1.00 each under outstanding options for the years ended 31st December 2007 and 2006, their weighted average exercise prices and expiration dates.

	2007		2006	
	Unissued number of ordinary shares under outstanding options	Weighted average exercise price SG\$	Unissued number of ordinary shares under outstanding options	Weighted average exercise price SG\$
Balance as at 1st January	4,082,587	14.00	5,747,105	13.69
Movements during the year:				
– Exercised	(1,130,097)	13.87	(1,451,838)	12.51
– Forfeited	(103,065)	13.71	(212,680)	15.79
Balance as at 31st December	<u>2,849,425</u>	<u>14.07</u>	<u>4,082,587</u>	<u>14.00</u>
Outstanding options exercisable as at 31st December	2,735,965	14.02	3,369,817	13.84
Weighted average remaining contractual life of options outstanding as at 31st December	5.0 years		6.0 years	
Range of exercise price of options outstanding as at 31st December	SG\$10.40- SG\$22.33		SG\$10.40- SG\$22.33	

In 2007, 1,130,097 options (2006: 1,451,838) were exercised at their contractual exercise prices. During the year, the average market price of DBSH shares was SG\$21.88 (2006: SG\$18.24).

(e) DBSH Share Plan

Under the DBSH Share Plan (the 'Share Plan'), DBSH ordinary shares could be granted to the Group executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent).

Participants are awarded ordinary shares of DBSH, their equivalent cash value or a combination of both, when the prescribed Group performance targets are met over a three-year period or after the satisfactory completion of time-based service conditions. Since the inception of the Share Plan, there have been no cash-settled awards under the Share Plan.

The Share Plan shares will vest three years from the date of grant. The fair value of Share Plan shares awarded is computed based on the market price of the ordinary shares at the time of the award and is amortised through the income statement over the vesting period. At each balance sheet date, the Group revises its estimates of the number of Share Plan shares expected to vest based on non-market vesting conditions and the corresponding adjustments are made to the income statement.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(e) DBSH Share Plan (continued)

The following table sets out the movements of the Share Plan shares granted pursuant to the plan for the year ended 31st December 2007 and their fair values at grant date.

	Group and Bank	
	2007 grant	2006 grant
	Number of shares	
Balance as at 1st January 2007	–	453,480
Granted during the year	212,213	–
Forfeited during the year	(60,463)	(114,020)
	<u>151,750</u>	<u>339,460</u>
	SG\$	SG\$
Fair value per share at grant date	<u>23.00</u>	<u>16.20</u>

43 Loans to officers

Particulars of loans made to officers and disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance:

	Balance outstanding as at 31st December		Maximum balance during the year	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>6,489</u>	<u>6,821</u>	<u>6,821</u>	<u>7,000</u>

44 Comparative figures

Certain comparative figures have been reclassified to conform with the financial statements presentation adopted in the current year.

UNAUDITED SUPPLEMENTARY INFORMATION

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 Corporate governance

Under the corporate governance structure of the Bank, the role of the Board of Directors is to provide high-level guidance and effective oversight over management. To assist the Board of Directors in fulfilling its responsibilities and in accordance with the best corporate governance practice, the Board Audit Committee and the Board Risk Management Committee were established and a number of specialised committees were formed to effectively contribute to the strategic and operational development of the Bank.

The roles, functions and composition of these committees are listed below:

(a) Board Audit Committee

The Board Audit Committee is authorised by the Board of Directors to investigate any activity within its terms of reference. Its main duties include, inter alia, the review of the Bank's financial statements before submission to the Board of Directors, the nomination and appointment of the external auditors, audit fee and any questions of resignation or dismissal of external auditors, the review of the internal audit programme and consideration of any major findings of internal investigations and management's response. The Board Audit Committee comprises the four independent non-executive directors of the Bank.

(b) Board Risk Management Committee

The Board Risk Management Committee provides comprehensive and bank-wide oversight of all risks and their management. It sets the overall and specific risk governance framework and obtains assurance that risk management activities are effective and that risk management activities have sufficient independence, status and visibility. It sets risk appetite capital and limits for delegation to the relevant risk committees and units and reviews risk reporting on significant risks and risk capital adequacy. It is also responsible for obtaining assurance that the Bank is on track in meeting the Basel II requirements according to approved plans. The Board Risk Management Committee comprises the Chairman of the Bank, the Chief Executive Officer and two independent non-executive directors.

(c) Greater China Coordinating Council

The Greater China Coordinating Council is responsible for implementing DBS's strategy for the Greater China region, as well as the financial and non-financial results of DBS's activities in this geographic segment. Key to its mandate is to provide leadership to the various business and support units in Greater China, with a view toward ensuring sound and effective governance, and achieving the targeted financial returns. Toward this end, the Greater China Coordinating Council is responsible for prioritising business development initiatives (as well as the support infrastructure projects necessary to underpin robust growth), and capital allocation, within the context of DBS Group strategy. The Greater China Coordinating Council is responsible for ensuring that policies and practices are in place to maintain good corporate governance, risk management and compliance standards in Greater China. Members of the Greater China Coordinating Council are senior management in Greater China.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Corporate governance (continued)

(d) *Greater China Credit Risk Committee*

The Greater China Credit Risk Committee serves as an executive forum for discussion and decisions on all aspects of credit risk and its management. It assesses credit risk taking and risk-return tradeoffs and facilitates communication among the different business units on credit issues and determines the suitability of credit risk management strategy and framework as well as IRB (Internal Ratings-based) systems in meeting the standards under Basel II. The Committee identifies, measures and monitors credit risk portfolio and specific loan and asset review situations and identifies specific credit concentrations and credit trends affecting the portfolio. Formed under the Greater China Credit Risk Committee, the Approval Sub-Committee approves credit risk related limits and policies and the Regulatory Sub-Committee oversees compliance with credit related regulatory requirements. The members of the Greater China Credit Risk Committee are the Chief Credit Officer, representatives from relevant business units and support units and other members nominated by the Chairman of the Greater China Credit Risk Committee.

(e) *Greater China Market Risk Committee*

The Greater China Market Risk Committee provides comprehensive and enterprise-wide oversight, direction and counsel relating to the management of market risk. It serves as an executive forum for discussion and decisions on all aspects of market risk and its management and maintains oversight on effectiveness of market risk management infrastructure, including framework, policies, people, processes, information, methodologies and systems on market risk. The Greater China Market Risk Committee comprises the Head of Risk Management, representatives from relevant business units and support units and others nominated by the Chairman of the Greater China Market Risk Committee.

(f) *Greater China Operational Risk Committee*

The Greater China Operational Risk Committee provides comprehensive and enterprise-wide oversight, direction and counsel relating to the management of operational risks. It is responsible for monitoring and reviewing the effectiveness of operational risk management framework, policy, process, methodology 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 Greater China Operational Risk Committee comprises the Head of Risk Management, representatives from the relevant support units and others nominated by the Chairman of the Greater China Operational Risk Committee.

(g) *Greater China Commitments and Conflicts Committee*

The Greater China Commitments and Conflicts Committee reviews proposed commitments, transactions and other actions proposed by DBS Group in the Greater China region which might have a possible impact on DBS's reputation and standing and resolves all actual / potential conflicts that may arise in the course of DBS Group's financial services activities whether in Singapore or in the Greater China region, including ensuring that DBS Group and its employees do not benefit (or appear to benefit) from the use of confidential information. The Greater China Commitments and Conflicts Committee comprises the Chief Executive Officer of the Bank and representatives from the relevant business units and support units.

(h) *Hong Kong Management Committee*

The Hong Kong Management Committee is responsible for formulating and implementing DBS's strategy for Hong Kong, as well as the financial and non-financial results of DBS's activities in this geographic segment. Key to its mandate is to provide leadership to the various business and support units in Hong Kong, with a view toward ensuring sound and effective governance, and achieving the targeted financial returns. Toward this end, the Hong Kong Management Committee is responsible for prioritising business development initiatives (as well as the support infrastructure projects necessary to underpin robust growth), and capital allocation, within the context of DBS Group strategy. The Hong Kong Management Committee is responsible for ensuring that policies and practices are in place to maintain high corporate governance, risk management and compliance standards in Hong Kong. Members of the Hong Kong Management Committee are senior management in Hong Kong.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

1 Corporate governance (continued)

(i) *Hong Kong Asset and Liability Committee*

The Hong Kong Asset and Liability Committee supervises the asset and liability management including the management of liquidity, structural interest rate risk and structural foreign exchange risk activities in Hong Kong and Macau. It manages the net interest income and margin of the region against changing interest and the currency rate conditions, and maturities / duration. It oversees the structure and composition of the balance sheets in the region, as well as the significant off-balance-sheet assets and liabilities. The Hong Kong Asset and Liability Committee comprises the Chief Executive Officer of the Bank and representatives from the relevant business units and support units.

During the year, the Bank has complied with, in all material aspects, the guidelines set out in the Supervisory Policy Manual entitled 'Corporate Governance of Locally Incorporated Authorized Institutions' issued by the Hong Kong Monetary Authority.

2 Group Audit

Group Audit is an independent function that reports directly to the Board Audit Committee and the Chief Executive Officer. Group Audit meets or exceeds the Standards for Professional Practice of the Institute of Internal Auditors in all key aspects. The professional competence of our internal auditors is maintained or upgraded through training programmes, conferences and seminars that provide updates on auditing techniques, regulations and banking products and services.

An annual audit plan is developed under a structured risk assessment approach that examines all of the Group's activities and entities, their inherent risks and internal controls. Audit assignments are identified based on this approach and audit resources are focused on the activities deemed to carry higher risks.

The progress of corrective actions on outstanding audit issues is monitored monthly through a centralised group-wide operational risk system. Information on outstanding issues is categorised according to severity and monthly reports are sent to the Chairman of Board Audit Committee, the Chairman of the Board of Directors, senior management and business units and support units heads.

All audit reports which are rated as requiring attention are copied to the Board Audit Committee, the external auditors and senior management. The regulators are also apprised of all relevant audit matters and may request for further information on audit matters at any time. The head of Group Audit has full access to the Board Audit Committee and senior management, and his appointment is approved by the Committee.

Group Audit works closely with the external auditors and meets regularly with them to discuss matters of mutual interest, to strengthen working relationships and to co-ordinate audit efforts. The external auditors review the effectiveness of the Group's internal controls and risk management during an annual statutory audit. Material non-compliances with established practices and procedures and regulations, as well as internal control weaknesses noted during the audit, together with recommendations, are reported to the Board Audit Committee, which ensure that high risk outstanding issues are dealt with in a timely manner.

The head of Group Audit Greater China in Hong Kong reports directly to the head of Group Audit in Singapore and the Board Audit Committee in Hong Kong with dotted reporting line to the Chief Executive Officer in Hong Kong.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

3 Capital requirements for different types of risks

	2007 HK\$'000
Credit risk	10,527,283
Market risk	253,072
Operational risk	865,749
	<u>11,646,104</u>

In accordance with the Banking (Capital) Rules issued under 98A of the Banking Ordinance for the implementation of the Basel II capital accord, the Bank now uses the basic approach for the calculation of the risk weighted assets for credit risk, and the standardized approach for the calculation of the risk weighted assets for operational risk and market risk.

Capital requirements shown in this note are made by multiplying the Bank's risk-weighted amounts derived from the relevant calculation approach by 8% as defined in the Banking (Disclosure) Rules.

(a) Analysis of capital requirements for credit risk

2007	Risk weighted amounts HK\$'000	Capital requirements HK\$'000
On-balance sheet		
Sovereigns	308,558	24,685
Public sector entities	764,119	61,130
Banks	16,499,817	1,319,985
Cash items	4,030	322
Residential mortgage loans	20,895,805	1,671,664
Other exposures	83,789,656	6,703,173
	<u>122,261,985</u>	<u>9,780,959</u>
Off-balance sheet		
Off-balance sheet exposures other than over-the-counter derivative transactions	5,215,336	417,227
Over-the-counter derivative transactions	4,113,718	329,097
	<u>9,329,054</u>	<u>746,324</u>

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

3 Capital requirements for different types of risks (continued)

(a) Analysis of capital requirements for credit risk (continued)

The gross total positive fair value of the over-the-counter derivative transactions is HK\$2,487,361,000. The analysis of the credit equivalent amounts and the risk-weighted amounts for over-the-counter derivative contracts are as follows:

2007	Credit equivalent amounts HK\$'000	Risk weighted amounts HK\$'000
Exchange rate contracts	5,566,177	3,479,356
Interest rate contracts	1,190,008	160,989
Equity contracts	1,335,677	473,373
	<u>8,091,862</u>	<u>4,113,718</u>

The Bank currently uses the current exposure method for the purpose of providing capital for counterparty exposures as in accordance with the Banking (Capital) Rules. Internally, the Bank measures counterparty credit exposure using the marked-to-market exposure with an appropriate add-on for future potential exposures.

(b) Capital requirements for market risk

The capital requirements for market risk arising from the trading book positions and certain banking book positions are calculated in accordance with the Banking (Capital) Rules as follows:

	2007 HK\$'000
Interest rate exposures	184,863
Foreign exchange exposures	68,209
	<u>253,072</u>

Comparative figures on capital requirements are not required for the first time adoption of the Banking (Disclosure) Rules.

4 Interest rate risk exposures in banking book

In accordance with the prudential return 'Interest Rate Risk Exposures' issued by the Hong Kong Monetary Authority, the Bank calculates, on a quarterly basis, the impact on earnings over the next 12 months under a scenario of which interest rate rises 200 basis points.

As at 31st December 2007, the impact on earnings on the HKD and USD interest rate risk positions amounted to HK\$14,000,000 and HK\$117,000,000 respectively.

Comparative figures on the impact on earnings are not required for the first time adoption of the Banking (Disclosure) Rules.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

5 Liquidity ratio

The average liquidity ratio for the year, calculated in accordance with the Fourth Schedule of the Banking Ordinance, is as follows:

	2007	2006
Average liquidity ratio	<u><u>37.4%</u></u>	<u><u>42.7%</u></u>

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of the Hong Kong offices of the Bank.

6 Segmental information

(a) Segmental information by class of business

	Group			Total HK\$'000
	Commercial and retail banking HK\$'000	Treasury HK\$'000	Subsidiaries, overseas branches and others HK\$'000	
2007				
Total income	<u><u>6,532,513</u></u>	<u><u>679,430</u></u>	<u><u>(140,712)</u></u>	<u><u>7,071,231</u></u>
Profit before impairment allowances	<u><u>3,556,942</u></u>	<u><u>501,767</u></u>	<u><u>(167,180)</u></u>	<u><u>3,891,529</u></u>
Profit before income tax	<u><u>3,086,020</u></u>	<u><u>497,748</u></u>	<u><u>(67,005)</u></u>	<u><u>3,516,763</u></u>
Operating assets	<u><u>124,230,128</u></u>	<u><u>104,337,661</u></u>	<u><u>3,955,780</u></u>	<u><u>232,523,569</u></u>
2006				
Total income	<u><u>5,829,125</u></u>	<u><u>685,999</u></u>	<u><u>501,337</u></u>	<u><u>7,016,461</u></u>
Profit before impairment allowances	<u><u>3,227,942</u></u>	<u><u>503,031</u></u>	<u><u>367,768</u></u>	<u><u>4,098,741</u></u>
Profit before income tax	<u><u>2,820,830</u></u>	<u><u>502,615</u></u>	<u><u>370,462</u></u>	<u><u>3,693,907</u></u>
Operating assets	<u><u>117,614,501</u></u>	<u><u>90,973,380</u></u>	<u><u>3,510,898</u></u>	<u><u>212,098,779</u></u>

Commercial and retail banking business mainly comprises deposit account services, residential mortgage and other consumer lending, credit card services, corporate lending, trade finance and international banking.

Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, trading activities and management of investment securities and the overall funding of the Banking Group.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Segmental information (continued)

(b) Segmental information by booking location

Over 90% of the Group's total income, profit before income tax, total assets, total liabilities, contingent liabilities and commitments are booked in Hong Kong.

(c) Cross-border claims

Analysis of cross-border claims by location and type of counterparty is as follows:

HK\$' million	Group			Total
	Banks	Public sector entities	Others	
2007				
Asia Pacific excluding Hong Kong	45,814	660	4,837	51,311
North and South America	3,016	18	1,834	4,868
Europe	26,807	4	489	27,300
Others	5	–	1,161	1,166
	<u>75,642</u>	<u>682</u>	<u>8,321</u>	<u>84,645</u>
2006				
Asia Pacific excluding Hong Kong	30,372	748	6,409	37,529
North and South America	3,619	155	857	4,631
Europe	30,488	6	724	31,218
Others	9	–	1,104	1,113
	<u>64,488</u>	<u>909</u>	<u>9,094</u>	<u>74,491</u>

The above analysis 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.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Advances to customers

(a) Advances to customers by loan usage

	Bank			
	2007		2006	
	Outstanding balance HK\$'000	Balance covered by collateral HK\$'000	Outstanding balance HK\$'000	Balance covered by collateral (as restated) HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	145,300	99,810	197,691	191,218
– Property investment	19,030,892	18,748,695	16,173,180	15,566,643
– Financial concerns	629,264	447,930	565,549	252,022
– Stockbrokers	140,638	37,121	21,871	9,038
– Wholesale and retail trade	2,890,889	2,320,828	2,745,477	2,111,276
– Manufacturing	7,916,983	4,550,610	6,643,591	3,789,076
– Transport and transport equipment	10,592,289	10,419,489	10,433,389	10,197,887
– Recreational activities	56	56	4,904	1,841
– Information technology	117,402	39,424	78,715	44,309
– Others	5,905,484	4,469,353	5,053,413	3,355,210
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	1,905,707	1,900,937	2,208,130	2,202,380
– Loans for the purchase of other residential properties	34,720,490	34,669,124	33,844,221	33,537,380
– Credit card advances	5,230,882	–	5,496,428	–
– Others	7,529,902	4,916,255	5,760,894	3,542,676
	96,756,178	82,619,632	89,227,453	74,800,956
Trade finance	22,600,311	12,810,187	20,125,508	10,891,109
Loans for use outside Hong Kong	4,741,104	3,241,262	9,412,093	4,506,509
	124,097,593	98,671,081	118,765,054	90,198,574

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Advances to customers (continued)

(a) Advances to customers by loan usage (continued)

Analysis of collective impairment for the individual loan usage category which accounted for 10% or more of the gross advances to customers:

	Bank		
	Property investment HK\$'000	Loans for the purchase of other residential properties HK\$'000	Trade finance HK\$'000
As at 1st January 2007	52,810	61,971	319,889
Net charge /(release) to income statement	11,049	(16,828)	2,471
As at 31st December 2007	<u>63,859</u>	<u>45,143</u>	<u>322,360</u>
As at 1st January 2006	44,737	86,555	294,274
Net charge /(release) to income statement	8,073	(24,584)	25,615
As at 31st December 2006	<u>52,810</u>	<u>61,971</u>	<u>319,889</u>

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Advances to customers (continued)

(b) Overdue advances to customers

The overdue advances are analysed as follows:

	Bank			
	2007	% of gross advances to customers	2006	% of gross advances to customers
	HK\$'000		HK\$'000	
Six months or less but over three months	276,402	0.22	378,061	0.32
One year or less but over six months	231,000	0.19	318,390	0.27
Over one year	650,187	0.52	583,282	0.49
	<u>1,157,589</u>	<u>0.93</u>	<u>1,279,733</u>	<u>1.08</u>
Individual impairment allowances made in respect of the above overdue advances	<u>669,322</u>		<u>649,220</u>	
	2007		As restated 2006	
	HK\$'000		HK\$'000	
Current market value of collateral held against the covered portion of the above overdue advances	<u>520,234</u>		<u>589,000</u>	
Covered portion of the above overdue advances	<u>316,597</u>		<u>358,074</u>	
Uncovered portion of the above overdue advances	<u>840,992</u>		<u>921,659</u>	

(c) Rescheduled advances

The rescheduled advances (net of those which have been overdue for over three months and reported in item (b) above) are analysed as follows:

	Bank			
	2007	% of gross advances to customers	2006	% of gross advances to customers
	HK\$'000		HK\$'000	
Rescheduled advances	<u>289,247</u>	0.23	<u>206,581</u>	0.17

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Advances to customers (continued)

(d) Repossessed assets

As at 31st December 2007, repossessed assets of the Bank amounted to HK\$76,553,000 (2006: HK\$130,101,000).

(e) Non-bank Mainland exposures

Bank	On-balance sheet exposures HK\$'000	Off-balance sheet exposures HK\$'000	Total HK\$'000	Individual impairment allowances HK\$'000
2007				
Mainland entities	120,387	64,828	185,215	15,915
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,274,468	1,368,685	6,643,153	127,630
Other counterparties where the exposures are considered to be non-bank Mainland exposures	43,899	26,065	69,964	–
	<u>5,438,754</u>	<u>1,459,578</u>	<u>6,898,332</u>	<u>143,545</u>
2006				
Mainland entities	3,874,380	459,606	4,333,986	27,596
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,235,613	1,324,466	7,560,079	116,571
Other counterparties where the exposures are considered to be non-bank Mainland exposures	80,397	26,748	107,145	29,605
	<u>10,190,390</u>	<u>1,810,820</u>	<u>12,001,210</u>	<u>173,772</u>

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

8 Currency concentrations

The table below summarises the Group's assets and liabilities at carrying amounts, categorised by currency:

HK\$' million	Group			Total
	USD	GBP	Others	
2007				
Hong Kong dollar equivalents				
Spot assets	69,275	2,043	19,071	90,389
Spot liabilities	(53,224)	(2,263)	(19,299)	(74,786)
Forward purchases	99,344	604	10,498	110,446
Forward sales	(114,786)	(469)	(10,360)	(125,615)
Net options position	(59)	(1)	90	30
Net long / (short) non-structural position	<u>550</u>	<u>(86)</u>	<u>0</u>	<u>464</u>
Net structural position	<u>-</u>	<u>-</u>	<u>75</u>	<u>75</u>
2006				
Hong Kong dollar equivalents				
Spot assets	58,260	1,055	15,420	74,735
Spot liabilities	(53,587)	(1,445)	(14,645)	(69,677)
Forward purchases	72,316	1,366	10,234	83,916
Forward sales	(77,029)	(1,028)	(10,691)	(88,748)
Net options position	579	47	(332)	294
Net long / (short) non-structural position	<u>539</u>	<u>(5)</u>	<u>(14)</u>	<u>520</u>
Net structural position	<u>-</u>	<u>-</u>	<u>288</u>	<u>288</u>

The net structural position as at 31st December 2007 represented the Group's Macau Pataca (MOP) investment of HK\$75,000,000 equivalent (2006: HK\$31,000,000) in Macau. As at 31st December 2006, the Group had Renminbi investments of HK\$257,000,000 equivalent in its Mainland branches, which were derecognised on 26th May 2007, when the Bank transferred them to its intermediate holding company.

The net options position is calculated based on the delta-weighted position as set out in the prudential return 'Foreign Currency Position' issued by the Hong Kong Monetary Authority.