

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

**GROUP INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED
30TH JUNE 2008**

DBS BANK (HONG KONG) LIMITED

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DBS BANK (HONG KONG) LIMITED

The Directors of DBS Bank (Hong Kong) Limited (the 'Bank') are pleased to announce the unaudited consolidated interim results of the Bank and its subsidiaries (the 'Group') for the six months ended 30th June 2008 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

| | | For the six months ended | |
|--|------|--------------------------|----------------|
| | Note | 30th June 2008 | 30th June 2007 |
| | | HK\$'000 | HK\$'000 |
| Interest income | 2 | 4,442,901 | 5,918,095 |
| Interest expense | 3 | (2,195,231) | (3,359,992) |
| Net interest income | | 2,247,670 | 2,558,103 |
| Net fee and commission income | 4 | 722,745 | 752,371 |
| Net gain from financial instruments at fair value through profit or loss | 5 | 432,403 | 249,078 |
| Net gain on disposal of available-for-sale financial investments | | 218,816 | 20,667 |
| Net gain on disposal of fixed assets and lease premium for land | | 149,401 | 10,088 |
| Other income | 6 | 19,128 | 17,583 |
| Total income | | 3,790,163 | 3,607,890 |
| Total expenses | 7 | (1,683,807) | (1,531,280) |
| Profit before impairment allowances | | 2,106,356 | 2,076,610 |
| Impairment allowances on advances to customers | 8 | (60,963) | (182,408) |
| Profit before income tax | | 2,045,393 | 1,894,202 |
| Income tax expense | 9 | (269,211) | (321,787) |
| Profit attributable to shareholders | | 1,776,182 | 1,572,415 |
| Dividends | | 3,400,000 | – |

DBS BANK (HONG KONG) LIMITED

UNAUDITED CONSOLIDATED BALANCE SHEET

| | Note | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|--|------|--|--|
| Assets | | | |
| Cash and balances with banks | 10 | 21,895,045 | 36,339,915 |
| Placements with and advances to banks | 11 | 7,813,058 | 17,753,028 |
| Trading securities | | 6,064,501 | 7,575,988 |
| Financial assets designated at fair value through profit or loss | | 38,996 | – |
| Positive replacement values | | 3,173,912 | 2,749,958 |
| Advances to customers less impairment allowances | 12 | 136,517,689 | 122,412,304 |
| Available-for-sale financial investments | | 39,027,836 | 36,142,338 |
| Other assets | | 2,459,800 | 6,258,152 |
| Deferred income tax assets | | 46,283 | 58,465 |
| Fixed assets | 13 | 1,188,710 | 1,200,488 |
| Lease premium for land | | 1,971,629 | 2,032,933 |
| Total assets | | <u>220,197,459</u> | <u>232,523,569</u> |
| Liabilities | | | |
| Deposits and balances from banks | | 5,550,448 | 804,768 |
| Trading liabilities | | 5,606,633 | 7,519,879 |
| Financial liabilities designated at fair value through profit or loss | 14 | 6,486,259 | 6,987,963 |
| Negative replacement values | | 3,894,987 | 3,095,364 |
| Deposits from customers | 15 | 172,034,434 | 181,069,821 |
| Certificates of deposit issued | 16 | 157,230 | 617,795 |
| Other liabilities | | 5,141,622 | 9,672,747 |
| Current income tax liabilities | | 453,014 | 338,293 |
| Amount due to a jointly controlled entity | | 725,557 | 720,766 |
| Subordinated liabilities | 17 | 4,211,568 | 4,212,621 |
| Total liabilities | | <u>204,261,752</u> | <u>215,040,017</u> |
| Equity | | | |
| Share capital | | 5,200,000 | 5,200,000 |
| Reserves | | 10,735,707 | 12,283,552 |
| Total equity | | <u>15,935,707</u> | <u>17,483,552</u> |
| Total liabilities and equity | | <u>220,197,459</u> | <u>232,523,569</u> |

DBS BANK (HONG KONG) LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | 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 2007 | 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 |
| Change in fair value of available-for-sale financial investments | - | - | - | 124,206 | - | - | 124,206 |
| Exchange differences arising from translation of net investments in overseas branch and subsidiaries | - | - | - | - | - | (9) | (9) |
| Profit attributable to shareholders | - | - | - | - | - | 1,776,182 | 1,776,182 |
| Reserve transferred to income statement upon disposal of available-for-sale financial investments | - | - | - | (74,145) | - | - | (74,145) |
| Deferred income tax | - | - | - | 25,921 | - | - | 25,921 |
| Dividends | - | - | - | - | - | (3,400,000) | (3,400,000) |
| Balance as at 30th June 2008 | 5,200,000 | 595,503 | 11,636 | 5,237 | 2,398,792 | 7,724,539 | 15,935,707 |

As at 30th June 2008, HK\$701,355,000 (31st December 2007: HK\$405,194,000) 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.

DBS BANK (HONG KONG) LIMITED

REVIEW OF ACTIVITIES

During the period, the Bank achieved its goal of growing both total income and profit. Profit attributable to shareholders increased by 13.0% from same period last year to HK\$1,776 million, return on average total assets of 1.6% and return on average shareholders' funds of 22.3% were recorded.

Total income increased by 5.1% to HK\$3,790 million. Net interest income decreased by 12.1% to HK\$2,248 million, while net interest margin dropped by 38 basis points to 2.12%. Non-interest income increased by 46.9% to HK\$1,542 million. Total expenses rose by 10.0% to HK\$1,684 million, with staff costs increased by 7.6% mainly due to upward wage pressure and non-staff costs rose by 12.9%. The cost-to-income ratio increased to 44.4% from 42.4% in the first half of 2007. Impairment allowances down 66.6% from first half of 2007 to HK\$61 million.

Gross advances to customers increased 11.3% from December 2007 to HK\$138 billion mainly contributed by the growth in trade finance, SME loans and property-related lending. Customer deposits decreased 5.0% to HK\$178 billion. The loan-to-deposit ratio increased to 76.6% from 65.2% in December 2007.

The Bank's financial position remains good. Capital adequacy ratio stood at a comfortable level of 12.6% as at 30th June 2008. Average liquidity ratio was 32.9% for the first half of 2008, compared to 39.1% for the first half of 2007.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Scope of consolidation

The consolidated financial statements incorporate the financial statements of DBS Bank (Hong Kong) Limited (the 'Bank') and all its subsidiaries (the 'Group').

For regulatory reporting purposes, the Bank is required to compute its capital adequacy ratio on a combined basis that is different from the basis of consolidation for accounting purposes. The basis is set out in note 20.

2. Interest income

Included in interest income is HK\$7,520,000 (first half of 2007: HK\$7,946,000) with respect to the time value of the impaired advances released from the impairment allowances and HK\$72,335,000 (first half of 2007: HK\$138,892,000) with respect to interest income recognised on financial assets at fair value through profit or loss.

3. Interest expense

Interest expense recognised on financial liabilities at fair value through profit or loss amounted to HK\$63,981,000 (first half of 2007: HK\$137,929,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Net fee and commission income

| | For the six months ended | |
|---|---------------------------------|-----------------------|
| | 30th June 2008 | 30th June 2007 |
| | HK\$'000 | HK\$'000 |
| Fee and commission income | 917,267 | 926,760 |
| Fee and commission expense | (194,522) | (174,389) |
| Net fee and commission income | <u>722,745</u> | <u>752,371</u> |
| Comprising: | | |
| – Wealth management | 232,984 | 294,546 |
| – Trade and remittances | 171,954 | 178,298 |
| – Credit card | 107,391 | 92,647 |
| – Loan-related | 69,992 | 59,277 |
| – Stock broking | 34,882 | 25,435 |
| – Deposit-related | 12,370 | 11,026 |
| – Investment banking | 9,977 | 10,472 |
| – Guarantees | 7,083 | 4,252 |
| – Others | 76,112 | 76,418 |
| | <u>722,745</u> | <u>752,371</u> |
| Of which: | | |
| Fee and commission income arising from: | | |
| – Financial assets or financial liabilities not at fair value through profit or loss | 393,046 | 344,663 |
| – Trust or other fiduciary activities | 16,529 | 15,798 |
| Fee and commission expense arising from: | | |
| – Financial assets or financial liabilities not at fair value through profit or loss | 184,892 | 160,533 |

5. Net gain from financial instruments at fair value through profit or loss

| | For the six months ended | |
|---|---------------------------------|-----------------------|
| | 30th June 2008 | 30th June 2007 |
| | HK\$'000 | HK\$'000 |
| Net trading income | | |
| – Foreign exchange | 476,319 | 389,665 |
| – Interest rates, credit and equities | (254,754) | 325,057 |
| | <u>221,565</u> | <u>714,722</u> |
| Net gain/(loss) from financial instruments designated at fair value through profit or loss | <u>210,838</u> | <u>(465,644)</u> |
| | <u>432,403</u> | <u>249,078</u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Other income

| | For the six months ended | |
|---|----------------------------|----------------------------|
| | 30th June 2008 HK\$'000 | 30th June 2007 HK\$'000 |
| Dividend income from listed investments | 1,671 | 1,741 |
| Dividend income from unlisted investments | 10,243 | 8,640 |
| Others | 7,214 | 7,202 |
| | <u>19,128</u> | <u>17,583</u> |

7. Total expenses

| | For the six months ended | |
|--|----------------------------|----------------------------|
| | 30th June 2008 HK\$'000 | 30th June 2007 HK\$'000 |
| Employee benefits | | |
| – Salaries and other short term employee benefits | 865,606 | 802,333 |
| – Pensions | 40,891 | 41,682 |
| – Share based payments | 14,056 | 11,153 |
| Premises and equipment expenses excluding depreciation | | |
| – Amortisation of lease premium for land | 23,694 | 23,824 |
| – Rental of premises | 77,841 | 72,927 |
| – Others | 121,403 | 97,808 |
| Depreciation | 83,953 | 73,412 |
| Auditors' remuneration | 4,576 | 5,435 |
| Other operating expenses | 451,787 | 402,706 |
| | <u>1,683,807</u> | <u>1,531,280</u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Impairment allowances on advances to customers

| | For the six months ended | |
|--|---------------------------------|----------------|
| | 30th June 2008 | 30th June 2007 |
| | HK\$'000 | HK\$'000 |
| Impairment allowances on advances to customers | | |
| – Individual impairment allowances | 163,200 | 126,418 |
| – Collective impairment allowances | (102,237) | 55,990 |
| | <u>60,963</u> | <u>182,408</u> |
| Individual impairment allowances | | |
| Of which: | | |
| – New allowances | 260,526 | 211,736 |
| – Releases | (86,245) | (71,353) |
| – Recoveries | (11,081) | (13,965) |
| | <u>163,200</u> | <u>126,418</u> |
| Collective impairment allowances | | |
| Of which: | | |
| – New allowances | 106,213 | 108,815 |
| – Releases | (189,947) | (31,817) |
| – Recoveries | (18,503) | (21,008) |
| | <u>(102,237)</u> | <u>55,990</u> |

9. Income tax expense

| | For the six months ended | |
|-----------------------|---------------------------------|----------------|
| | 30th June 2008 | 30th June 2007 |
| | HK\$'000 | HK\$'000 |
| Hong Kong profits tax | 226,295 | 293,759 |
| Overseas tax | 4,813 | 14,807 |
| | <u>231,108</u> | <u>308,566</u> |
| Current income tax | 38,103 | 13,221 |
| Deferred income tax | <u>269,211</u> | <u>321,787</u> |

Hong Kong profits tax has been provided at 16.5% (first half of 2007: 17.5%) on the estimated assessable profits for the period. Taxation for overseas subsidiaries and branch are charged at the appropriate current rates of taxation ruling in the countries in which they operate.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Cash and balances with banks

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|-----------------------------|--|--|
| Cash in hand | 364,050 | 330,694 |
| Balances with central banks | 94,892 | 309,222 |
| Balances with banks | 19,173,400 | 34,240,133 |
| Trade bills | 2,262,703 | 1,459,866 |
| | <u>21,895,045</u> | <u>36,339,915</u> |

11. Placements with and advances to banks

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|---------------------------------------|--|--|
| Remaining maturity: | | |
| – One year or less but over one month | 5,187,447 | 16,823,573 |
| – Over one year | 2,625,611 | 929,455 |
| | <u>7,813,058</u> | <u>17,753,028</u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Advances to customers less impairment allowances

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|-------------------------|--|--|
| Advances to customers | 138,107,608 | 124,097,593 |
| Impairment allowances | | |
| – Collectively assessed | (729,765) | (889,195) |
| – Individually assessed | (860,154) | (796,094) |
| | <u>136,517,689</u> | <u>122,412,304</u> |

Impaired advances

| | As at 30th June 2008 | | As at 31st December 2007 | |
|--|-----------------------------|---|---------------------------------|---|
| | HK\$'000 | % of gross advances to customers | HK\$'000 | % of gross advances to customers |
| Gross impaired advances subject to individual impairment allowances assessment | 2,129,614 | 1.54 | 1,818,771 | 1.47 |
| Individual impairment allowances | (860,154) | | (796,094) | |
| | <u>1,269,460</u> | | <u>1,022,677</u> | |
| Impaired advances covered by collateral | <u>1,300,971</u> | | <u>983,839</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)

13. Fixed assets

| | 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 2008 | 23,413 | 717,613 | 145,000 | 1,220,520 | 2,106,546 |
| Additions | – | 242 | – | 103,096 | 103,338 |
| Disposals | (446) | (68,562) | – | (408,152) | (477,160) |
| At 30th June 2008 | <u>22,967</u> | <u>649,293</u> | <u>145,000</u> | <u>915,464</u> | <u>1,732,724</u> |
| Accumulated depreciation and impairment | | | | | |
| As at 1st January 2008 | 17,044 | 299,785 | – | 589,229 | 906,058 |
| Charge for the period | 48 | 27,368 | – | 56,537 | 83,953 |
| Disposals | (430) | (65,283) | – | (380,284) | (445,997) |
| At 30th June 2008 | <u>16,662</u> | <u>261,870</u> | <u>–</u> | <u>265,482</u> | <u>544,014</u> |
| Net book value | | | | | |
| At 30th June 2008 | <u><u>6,305</u></u> | <u><u>387,423</u></u> | <u><u>145,000</u></u> | <u><u>649,982</u></u> | <u><u>1,188,710</u></u> |

The analysis of cost or valuation of the above assets at 30th June 2008 is as follows:

| | | | | | |
|--------------|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| At cost | <u>22,967</u> | <u>649,293</u> | <u>–</u> | <u>915,464</u> | <u>1,587,724</u> |
| At valuation | <u>–</u> | <u>–</u> | <u>145,000</u> | <u>–</u> | <u>145,000</u> |
| | <u><u>22,967</u></u> | <u><u>649,293</u></u> | <u><u>145,000</u></u> | <u><u>915,464</u></u> | <u><u>1,732,724</u></u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Fixed assets (continued)

| | 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 |
| | <u>23,413</u> | <u>717,613</u> | <u>145,000</u> | <u>1,220,520</u> | <u>2,106,546</u> |
| At 31st December 2007 | 23,413 | 717,613 | 145,000 | 1,220,520 | 2,106,546 |
| 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 |
| | <u>17,044</u> | <u>299,785</u> | <u>–</u> | <u>589,229</u> | <u>906,058</u> |
| At 31st December 2007 | 17,044 | 299,785 | – | 589,229 | 906,058 |
| Net book value | | | | | |
| At 31st December 2007 | <u>6,369</u> | <u>417,828</u> | <u>145,000</u> | <u>631,291</u> | <u>1,200,488</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 | – | – | 145,000 | – | 145,000 |
| | <u>23,413</u> | <u>717,613</u> | <u>145,000</u> | <u>1,220,520</u> | <u>2,106,546</u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Financial liabilities designated at fair value through profit or loss

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|---|--|--|
| Financial liabilities designated at fair value through profit or loss | | |
| – Structured investment deposits (Note 15) | 6,187,275 | 6,556,839 |
| – Certificates of deposit issued (Note 16) | 298,984 | 431,124 |
| | <u>6,486,259</u> | <u>6,987,963</u> |

15. Deposits from customers

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|--|--|--|
| Deposits from customers | | |
| – Reported in the balance sheet | 172,034,434 | 181,069,821 |
| – Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 14) | 6,187,275 | 6,556,839 |
| | <u>178,221,709</u> | <u>187,626,660</u> |
| Analysed by: | | |
| – Demand deposits and current accounts | 10,164,668 | 10,198,081 |
| – Savings deposits | 39,958,357 | 38,299,049 |
| – Time, call and notice deposits | 128,098,684 | 139,129,530 |
| | <u>178,221,709</u> | <u>187,626,660</u> |

16. Certificates of deposit issued

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|---|--|--|
| Certificates of deposit issued | | |
| – At amortised cost | 6,468 | 6,445 |
| – At fair value under fair value hedge | 150,762 | 611,350 |
| | <u>157,230</u> | <u>617,795</u> |
| As stated in the balance sheet | 157,230 | 617,795 |
| Reported as financial liabilities designated at fair value through profit or loss (Note 14) | 298,984 | 431,124 |
| | <u>456,214</u> | <u>1,048,919</u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Subordinated liabilities

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%.

18. Derivative financial instruments

The following is a summary of each significant type of derivative financial instruments:

As as 30th June 2008

| Derivatives held for trading | Contract/ notional amount HK\$'000 | Credit risk weighted amount HK\$'000 | Fair value assets HK\$'000 | Fair value liabilities HK\$'000 |
|--|---|---|----------------------------------|---------------------------------------|
| Exchange rate contracts | | | | |
| – Forwards | 136,113,115 | 970,778 | 432,522 | 365,511 |
| – Swaps | 92,543,773 | 219,974 | 198,766 | 107,833 |
| – Options purchased | 181,098,617 | 2,480,498 | 1,011,530 | – |
| – Options written | 181,009,397 | – | – | 1,013,988 |
| | <u>590,764,902</u> | <u>3,671,250</u> | <u>1,642,818</u> | <u>1,487,332</u> |
| Interest rate contracts | | | | |
| – Futures | 17,173,838 | – | 7,399 | 15,222 |
| – Swaps | 74,135,188 | 85,217 | 621,628 | 757,968 |
| – Options purchased | 1,299,481 | 238 | 5,505 | – |
| – Options written | 1,299,481 | – | – | 5,505 |
| | <u>93,907,988</u> | <u>85,455</u> | <u>634,532</u> | <u>778,695</u> |
| Equity contracts | <u>29,746,669</u> | <u>1,126,874</u> | <u>1,629,287</u> | <u>1,629,066</u> |
| Total derivatives held for trading | <u>714,419,559</u> | <u>4,883,579</u> | <u>3,906,637</u> | <u>3,895,093</u> |
| Derivatives designated and qualified as fair value hedges | | | | |
| Interest rate contracts | | | | |
| – Swaps | <u>2,943,360</u> | <u>64,262</u> | <u>41,102</u> | <u>53,986</u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Derivative financial instruments (continued)

As at 31st December 2007

| Derivatives held for trading | Contract/ notional amount HK\$'000 | Credit risk weighted amount HK\$'000 | Fair value assets HK\$'000 | Fair value liabilities HK\$'000 |
|--|---|---|----------------------------------|---------------------------------------|
| 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> |

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.

The credit risk weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules and the 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)

19. Contingent liabilities and commitments

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

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 HK\$'000 |
|---|--|--|
| Direct credit substitutes | 1,133,134 | 1,186,065 |
| Transaction-related contingencies | 724,950 | 678,840 |
| Trade-related contingencies | 7,943,810 | 5,857,805 |
| Forward forward deposits placed | 14,077,556 | 13,381,189 |
| Other commitments with an original maturity of not more than one year | 1,134,715 | 1,494,457 |
| Other commitments with an original maturity of more than one year | 75,870 | 90,252 |
| Other commitments which are unconditionally cancellable | 90,097,330 | 89,002,484 |
| | <u>115,187,365</u> | <u>111,691,092</u> |
| Credit risk weighted amount | <u>5,673,390</u> | <u>5,215,336</u> |

20. Capital structure and adequacy

The following table sets forth details of capital resources and capital adequacy ratios for the Bank. The Bank is required to compute its capital adequacy ratio on a combined basis that includes the Bank and its overseas branch. The investments in subsidiaries are deducted from the Bank's core capital and supplementary capital.

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

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Capital structure and adequacy (continued)

| | As at 30th June 2008 HK\$'000 | As at 31st December 2007 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) | 7,287,439 | 8,111,942 |
| Profit and loss account | 1,758,598 | 2,871,670 |
| Deduct: | | |
| Deferred tax assets | (47,729) | (60,468) |
| | <u>14,793,811</u> | <u>16,718,647</u> |
| Deductions from core capital | (111,035) | (112,511) |
| Core capital after deductions | <u>14,682,776</u> | <u>16,606,136</u> |
| Supplementary capital | | |
| Reserve on revaluation of land and interests in land | 65,953 | 65,953 |
| Reserve on revaluation of holding of securities not held for trading purposes | (172,500) | (107,762) |
| Collective impairment allowances | 704,100 | 864,184 |
| Regulatory reserve | 701,355 | 405,194 |
| Term subordinated liabilities | 4,211,568 | 4,212,621 |
| | <u>5,510,476</u> | <u>5,440,190</u> |
| Deductions from supplementary capital | (111,036) | (112,512) |
| Supplementary capital after deductions | <u>5,399,440</u> | <u>5,327,678</u> |
| Total capital base before deductions | 20,304,287 | 22,158,837 |
| Deductions from core capital and supplementary capital | (222,071) | (225,023) |
| Total capital base after deductions | <u>20,082,216</u> | <u>21,933,814</u> |
| Risk-weighted assets | <u>159,387,959</u> | <u>145,576,302</u> |
| Capital adequacy ratio | | |
| Core capital ratio | 9.2% | 11.4% |
| Supplementary capital ratio | 3.4% | 3.7% |
| Total capital adequacy ratio | <u>12.6%</u> | <u>15.1%</u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Cross-border claims

Analysis of the Group's cross-border claims by location and by type of counterparty is as follows:

| HK\$' million | Banks | Public sector entities | Others | Total |
|----------------------------------|---------------|------------------------|---------------|---------------|
| As at 30th June 2008 | | | | |
| Asia Pacific excluding Hong Kong | 37,450 | 595 | 6,425 | 44,470 |
| North and South America | 2,825 | 14 | 3,292 | 6,131 |
| Europe | 11,593 | 5 | 510 | 12,108 |
| Others | 47 | 70 | 1,373 | 1,490 |
| | <u>51,915</u> | <u>684</u> | <u>11,600</u> | <u>64,199</u> |
| As at 31st December 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> |

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Advances to customers

The Group employs a range of policies and practices to mitigate credit risk, one of which is the taking of collateral and other securities. The principal collateral types include mortgages over premises, charges over financial instruments such as deposits, equities and debt securities. Balances of advances analysed by loan usage and the corresponding balances covered by collateral are as follows:

(a) Advances to customers by loan usage

Analysis of the Bank's advances to customers by loan usage is as follows:

| | As at 30th June 2008 | | As at 31st December 2007 | |
|---|------------------------------------|---|------------------------------------|---|
| | Outstanding balance HK\$'000 | Balance covered by collateral HK\$'000 | Outstanding balance HK\$'000 | Balance covered by collateral HK\$'000 |
| Loans for use in Hong Kong | | | | |
| Industrial, commercial and financial | | | | |
| – Property development | 232,030 | 230,840 | 145,300 | 99,810 |
| – Property investment | 24,014,112 | 23,477,067 | 19,030,892 | 18,748,695 |
| – Financial concerns | 717,660 | 524,504 | 629,264 | 447,930 |
| – Stockbrokers | 27,996 | 27,026 | 140,638 | 37,121 |
| – Wholesale and retail trade | 3,305,557 | 2,467,482 | 2,890,889 | 2,320,828 |
| – Manufacturing | 9,250,824 | 4,939,010 | 7,916,983 | 4,550,610 |
| – Transport and transport equipment | 11,197,823 | 10,984,731 | 10,592,289 | 10,419,489 |
| – Recreational activities | 300 | 300 | 56 | 56 |
| – Information technology | 99,515 | 32,217 | 117,402 | 39,424 |
| – Others | 7,221,325 | 5,693,564 | 5,905,484 | 4,469,353 |
| 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 | 1,764,797 | 1,761,294 | 1,905,707 | 1,900,937 |
| – Loans for the purchase of other residential properties | 36,740,435 | 36,654,716 | 34,720,490 | 34,669,124 |
| – Credit card advances | 4,959,407 | – | 5,230,882 | – |
| – Others | 8,323,758 | 4,990,967 | 7,529,902 | 4,916,255 |
| | 107,855,539 | 91,783,718 | 96,756,178 | 82,619,632 |
| Trade finance | 25,151,242 | 14,299,862 | 22,600,311 | 12,810,187 |
| Loans for use outside Hong Kong | 5,100,827 | 3,853,393 | 4,741,104 | 3,241,262 |
| | 138,107,608 | 109,936,973 | 124,097,593 | 98,671,081 |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Advances to customers (continued)

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

Analysis of impaired advances, individual and collective impairment allowances for the individual loan usage category which accounted for 10% or more of the Bank's advances to customers:

| | Advances subject to individual impairment allowances assessment HK\$'000 | Individual impairment allowances HK\$'000 | Collective impairment allowances HK\$'000 |
|---|---|--|--|
| As at 30th June 2008 | | | |
| Property investment | 99,343 | 3,802 | 48,815 |
| Loans for the purchase of other residential properties | 131,762 | 5,581 | 41,463 |
| Trade finance | 323,537 | 132,619 | 239,533 |
| As at 31st December 2007 | | | |
| Property investment | 99,091 | 8,750 | 63,859 |
| Loans for the purchase of other residential properties | 171,717 | 10,497 | 45,143 |
| Trade finance | 319,864 | 168,362 | 322,360 |

(b) By geographical area

Over 90% of the Bank's 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.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Overdue and rescheduled advances

(a) Overdue advances to customers

The overdue advances of the Bank are analysed as follows:

| | As at 30th June 2008 | | As at 31st December 2007 | |
|---|----------------------|----------------------------------|--------------------------|----------------------------------|
| | HK\$'000 | % of gross advances to customers | HK\$'000 | % of gross advances to customers |
| Six months or less but over three months | 278,776 | 0.20 | 276,402 | 0.22 |
| One year or less but over six months | 275,062 | 0.20 | 231,000 | 0.19 |
| Over one year | 626,859 | 0.45 | 650,187 | 0.52 |
| | <u>1,180,697</u> | <u>0.85</u> | <u>1,157,589</u> | <u>0.93</u> |
| Individual impairment allowances made in respect of the above overdue advances | <u>667,930</u> | | <u>669,322</u> | |
| Current market value of collateral held against the covered portion of the above overdue advances | <u>781,161</u> | | <u>520,234</u> | |
| Covered portion of the above overdue advances | <u>354,901</u> | | <u>316,597</u> | |
| Uncovered portion of the above overdue advances | <u>825,796</u> | | <u>840,992</u> | |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Overdue and rescheduled advances (continued)

(b) Rescheduled advances

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

| | As at 30th June 2008 | | As at 31st December 2007 | |
|----------------------|----------------------|----------------------------------|--------------------------|----------------------------------|
| | HK\$'000 | % of gross advances to customers | HK\$'000 | % of gross advances to customers |
| Rescheduled advances | <u>310,720</u> | 0.22 | <u>289,247</u> | 0.23 |

(c) Repossessed assets

As at 30th June 2008, the repossessed assets held by the Bank amounted to HK\$118,138,000 (31st December 2007: HK\$76,553,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Non-bank Mainland exposures

Analysis of the Bank's non-bank Mainland exposures is as follows:

| | On-balance sheet exposures HK\$'000 | Off-balance sheet exposures HK\$'000 | Total HK\$'000 | Individual impairment allowances HK\$'000 |
|---|--|---|-------------------------|--|
| As at 30th June 2008 | | | | |
| Mainland entities | 151,779 | 29,304 | 181,083 | 20,431 |
| Companies and individuals outside Mainland where the credit is granted for use in Mainland | 5,511,835 | 1,966,467 | 7,478,302 | 181,004 |
| Other counterparties where the exposures are considered to be non-bank Mainland exposures | <u>97,504</u> | <u>31,907</u> | <u>129,411</u> | <u>–</u> |
| | <u><u>5,761,118</u></u> | <u><u>2,027,678</u></u> | <u><u>7,788,796</u></u> | <u><u>201,435</u></u> |
| As at 31st December 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 | <u>43,899</u> | <u>26,065</u> | <u>69,964</u> | <u>–</u> |
| | <u><u>5,438,754</u></u> | <u><u>1,459,578</u></u> | <u><u>6,898,332</u></u> | <u><u>143,545</u></u> |

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Currency concentrations

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

| HK\$' million | USD | GBP | EUR | CAD | CHF | AUD | SGD | NZD | Others | Total |
|--|-----------|---------|---------|---------|---------|---------|-------|---------|---------|-----------|
| As at 30th June 2008 | | | | | | | | | | |
| Hong Kong dollar equivalents | | | | | | | | | | |
| Spot assets | 55,306 | 722 | 3,866 | 190 | 553 | 6,362 | 155 | 1,655 | 6,135 | 74,944 |
| Spot liabilities | (54,226) | (2,504) | (4,174) | (1,945) | (133) | (7,166) | (811) | (4,310) | (3,670) | (78,939) |
| Forward purchases | 114,445 | 2,903 | 1,994 | 1,837 | 894 | 2,141 | 1,301 | 4,112 | 5,029 | 134,656 |
| Forward sales | (115,772) | (1,175) | (1,676) | (62) | (1,327) | (1,148) | (644) | (1,527) | (7,480) | (130,811) |
| Net options position | 278 | 18 | (54) | 20 | - | (165) | (29) | 64 | (8) | 124 |
| Net long / (short) non-structural position | 31 | (36) | (44) | 40 | (13) | 24 | (28) | (6) | 6 | (26) |
| Net structural position | - | - | - | - | - | - | - | - | 110 | 110 |
| As at 31st December 2007 | | | | | | | | | | |
| Hong Kong dollar equivalents | | | | | | | | | | |
| Spot assets | 69,275 | 2,043 | 3,217 | 1,588 | 560 | 6,562 | 678 | 2,017 | 4,449 | 90,389 |
| Spot liabilities | (53,224) | (2,263) | (5,007) | (1,746) | (97) | (7,539) | (707) | (1,989) | (2,214) | (74,786) |
| Forward purchases | 99,344 | 604 | 2,862 | 308 | 473 | 1,782 | 67 | 139 | 4,867 | 110,446 |
| Forward sales | (114,786) | (469) | (1,063) | (146) | (924) | (912) | (40) | (174) | (7,101) | (125,615) |
| Net options position | (59) | (1) | (18) | 21 | - | 109 | - | (26) | 4 | 30 |
| Net long / (short) non-structural position | 550 | (86) | (9) | 25 | 12 | 2 | (2) | (33) | 5 | 464 |
| Net structural position | - | - | - | - | - | - | - | - | 75 | 75 |

The net structural position as at 30th June 2008 represented the Group's Macau Pataca (MOP) investment of HK\$110,000,000 equivalent (31st December 2007: HK\$75,000,000) in Macau.

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.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Liquidity ratio

| | For the six months ended | |
|--|--------------------------|----------------|
| | 30th June 2008 | 30th June 2007 |
| Average liquidity ratio for the period | <u>32.9%</u> | <u>39.1%</u> |

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio for the relevant period calculated for the Hong Kong offices of the Bank, and is in accordance with the Fourth Schedule of the Banking Ordinance.

Hong Kong, 1st August 2008