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[English translation for reference only]

Report of the auditors

PwC ZT Shen Zi (2009) No. 20799

To the Board of Directors of DBS Bank (China) Limited:

We have audited the accompanying financial statements of DBS Bank (China) Limited (the "Bank"), comprising its balance sheet as at 31 December 2008 and the income statement, the statement of cash flows and changes in owner's equity for the year ended 31 December 2008 and notes to these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

10 February 2009

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2008
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2008	31 December 2007
Cash and deposits with the central bank	7	4,008,892,369	3,133,373,099
Deposits with other banks	8	4,614,243,575	1,928,845,955
Placement with other banks	9	200,946,250	315,710,380
Trading assets	10	744,066,766	968,361,812
Derivative assets	11	404,927,321	232,776,863
Interest receivable	12	256,351,932	191,639,680
Loans and advances	13	26,551,958,186	23,314,745,432
Fixed assets	14	26,089,432	13,102,644
Long-term prepaid expenses	15	78,913,994	46,052,703
Deferred income tax assets	24	83,329,913	82,206,774
Other assets	16	114,653,725	59,162,368
TOTAL ASSETS		37,084,373,463	30,285,977,710

DBS BANK (CHINA) LIMITED

BALANCE SHEET (continued)
AS AT 31 DECEMBER 2008
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

LIABILITIES	Notes	31 December 2008	31 December 2007
Due to other banks and financial institutions	17	1,892,344,160	1,490,805,493
Placements from other banks	18	11,496,111,558	12,351,562,315
Financial liabilities at fair value through profit or loss	19	51,013,114	373,082,421
Derivative liabilities	11	358,656,340	252,153,784
Due to customers	20	18,331,884,050	10,933,809,945
Payroll and welfare payable	21	38,467,795	50,131,023
Taxes payable	22	81,582,867	65,507,238
Interest payable	23	205,034,887	180,598,751
Other liabilities	25	216,326,018	490,252,543
TOTAL LIABILITIES		32,671,420,789	26,187,903,513
OWNER'S EQUITY			
Paid-in capital	26	4,000,000,000	4,000,000,000
Capital surplus	27	22,571,343	22,571,343
Surplus reserve	28	39,038,133	7,550,285
Undistributed profits	29	351,343,198	67,952,569
TOTAL OWNER'S EQUITY		4,412,952,674	4,098,074,197
TOTAL LIABILITIES AND OWNER'S EQUITY		37,084,373,463	30,285,977,710

The accompanying notes form an integral part of these financial statements.

Vice Chairman/President: Head of Finance:

DBS BANK (CHINA) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

	Notes	2008	Period from 26 May 2007 (date of conversion) to 31 December 2007
Interest income	30	2,072,538,506	987,555,222
Interest expense	30	(962,750,022)	(516,339,567)
Net interest income		1,109,788,484	471,215,655
Fee and commission income	31	112,575,298	81,421,343
Fee and commission expenses	31	(5,795,671)	(3,831,090)
Net fee and commission income		106,779,627	77,590,253
Investment loss	32	(4,126,828)	(4,472,511)
Fair value gains/(losses)	33	81,591,410	(20,306,721)
Net losses from foreign exchange and derivative transactions		(95,917,980)	(91,325,443)
Operating income		1,198,114,713	432,701,233
Business tax and levies		(93,490,332)	(36,420,340)
General and administrative expenses	34	(499,771,755)	(256,960,724)
Impairment charge for credit losses	35	(208,131,810)	(41,881,479)
Operating expense		(801,393,897)	(335,262,543)
Operating profit		396,720,816	97,438,690
Non-operating income		13,237,930	9,232,721
Non-operating expenses		(2,572,076)	(39,371)
Total profit		407,386,670	106,632,040
Less: Income tax	36	(92,508,193)	(31,129,186)
Net profit		314,878,477	75,502,854

The accompanying notes form an integral part of these financial statements.

Vice Chairman/President: Head of Finance:

DBS BANK CHINA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

		Notes	2008	Period from 26 May 2007(date of conversion) to 31 December 2007
1	**Cash flows from operating activities**			
	Net increase in customer deposit and due to other banks		7,799,612,772	4,629,300,857
	Net decrease in trading assets		236,111,726	-
	Net decrease in placement with other banks		46,092,000	7,164,989,683
	Net increase in financial liabilities at fair value through profit or loss		-	365,230,000
	Interest received		2,007,826,254	949,586,782
	Fee and commission received		112,575,298	81,421,343
	Cash received relating to other operating activities		39,868,097	53,038,692
	Sub-total of cash inflow		10,242,086,147	13,243,567,357
	Net increase in loans and advances		(3,439,757,186)	(7,120,871,667)
	Net increase in deposits with the PBOC and other banks		(1,307,383,568)	(136,652,919)
	Net decrease in placements from other banks		(855,450,757)	(1,642,501,369)
	Net decrease in financial liabilities at fair value through profit or loss		(322,069,307)	-
	Net increase in trading assets		-	(570,298,293)
	Interest paid		(938,313,886)	(461,766,685)
	Fee and commission paid		(5,795,671)	(9,944,770)
	Cash paid to employees		(300,113,186)	(125,404,427)
	Payment of taxes		(171,046,035)	(36,761,597)
	Cash paid relating to other operating activities		(522,498,470)	(197,857,838)
	Sub-total of cash outflow		(7,862,428,066)	(10,302,059,565)
	Net cash provided from operating activities	37	2,379,658,081	2,941,507,792
2	**Cash flows from investing activities**			
	Net cash received from disposal of fixed assets		-	199
	Sub-total of cash inflow		-	199
	Cash paid for purchase of fixed assets and other long-term assets		(73,920,576)	(26,719,705)
	Sub-total of cash outflow		(73,920,576)	(26,719,705)
	Net cash used in investing activities		(73,920,576)	(26,719,506)

DBS BANK CHINA LIMITED

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

		Notes	2008	Period from 26 May 2007(date of conversion) to 31 December 2007
3	**Net cash flows from financing activities**		-	-
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		(120,876,313)	(154,211,417)
5	**Net increase in cash and cash equivalents**		2,184,861,192	2,760,576,869
	Add: Cash and cash equivalents at beginning of year/period		3,865,611,051	1,105,034,182
6	**Cash and cash equivalents at end of year/period**	37	6,050,472,243	3,865,611,051

The accompanying notes form an integral part of these financial statements.

Vice Chairman/President: Head of Finance:

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

	Share Capital	Capital surplus	Foreign currency translation difference	Surplus reserve	Undistributed profits	Total shareholders' equity
	Note 26	Note 27		Note 28	Note 29	
Balance at 26 May 2007 (date of conversion) in 2007 statutory financial statements	4,000,000,000	-	(58,962,476)	-	96,570,508	4,037,608,032
Retrospective adjustment of undistributed profits to payable to parent company prior to local incorporation	-	-	-	-	(96,570,508)	(96,570,508)
Restated amounts after adjusting undistributed profits to payable to parent company	4,000,000,000	-	(58,962,476)	-	-	3,941,037,524
Retrospective adjustments upon first-time adoption of the Accounting Standards for Business Enterprise (Note 2.1)	-	22,571,343	58,962,476	-	-	81,533,819
Restated balance at 26 May 2007 (date of conversion)	4,000,000,000	22,571,343	-	-	-	4,022,571,343
Restated net profit for the period from 26 May 2007 (date of conversion) to 31 December 2007 (Note 2.1)	-	-	-	-	75,502,854	75,502,854
Transfer to reserve fund	-	-	-	7,550,285	(7,550,285)	-
Restated balance at 31 December 2007	4,000,000,000	22,571,343	-	7,550,285	67,952,569	4,098,074,197
Net profit for the year of 2008	-	-	-	-	314,878,477	314,878,477
Transfer to reserve fund	-	-	-	31,487,848	(31,487,848)	-
Balance at 31 December 2008	4,000,000,000	22,571,343	-	39,038,133	351,343,198	4,412,952,674

The accompanying notes form an integral part of these financial statements

Vice Chairman/President:

Head of Finance:

1 GENERAL INFORMATION

DBS Bank (China) Limited (the "Bank") was established as a wholly-owned subsidiary of DBS Bank Ltd. ("DBS Bank") in Shanghai, China.

Prior to the establishment of the Bank and the transfer of business (the "conversion"), DBS Bank had three branches (Shanghai, Beijing and Guangzhou) and DBS Bank (Hong Kong) Ltd. ("DBS HK") had two branches (Shenzhen and Suzhou) in the People's Republic of China ("PRC") (collectively known as the "Former Branches"). On 22 December 2006, the Bank obtained an approval from the China Banking Regulatory Commission ("CBRC") to be incorporated as a wholly-owned subsidiary of DBS Bank by consolidating the two branches of DBS Bank (Beijing and Guangzhou) and two branches of DBS HK (Shenzhen and Suzhou). The Shanghai Branch of DBS Bank was permitted to maintain its branch status to carry on its foreign currency business (the "Retained Branch").

The Bank obtained its finance approval license No. 00000042 from the CBRC and obtained its business license (Shi Ju) Qi Du Hu Zong Zi No. 044272 with a non-restricted operating period from the Shanghai's State Administration of Industry and Commerce ("SAOC") on 22 May 2007 and 24 May 2007, respectively. The registered/paid-up capital of the Bank is RMB 4 billion.

The Bank's operating period is non-restricted according to its business license. It is principally engaged in the provision of foreign currency and Renminbi banking businesses as approved by the related regulators. The official conversion date was determined as 26 May 2007 under the instruction of DBS Bank.

In the process of the conversion, the Retained Branch had retained partial foreign currency business related assets, liabilities and operations, and the Bank had retained the remaining creditors' rights and liabilities of the Former Branches on the date of conversion. The Bank had sent written notifications to all of its clients on the restructuring and transfers of businesses, in accordance with the Law of Corporation and the Notice of Matters Related to the Treatment of the Relevant Debts and Credits When a Branch of Foreign Bank is Converted to a Wholly-Foreign-Owned Bank Solely Invested by Its Head Office (Yi Jian Fa [2007] No. 17) issued by the CBRC. The Bank also published in nation-wide newspapers for three consecutive days from 26 February 2007 regarding the establishment of DBS Bank (China) Limited and the restructuring of the Former Branches.

After the conversion and since 26 May 2007 (Date of Conversion), the Bank has retained all the assets, rights and obligations of the Former Branches except those retained by the Retained Branch.

Currently, the Bank has seven branches and five sub-branches located in Shanghai, Beijing, Shenzhen, Suzhou, Guangzhou, Tianjin and Nanning of the PRC.

The financial statements were authorized for issue by Board of Directors on 10 February 2009.

(All amounts expressed in Rmb unless otherwise stated)

2 BASIS OF PREPARATION

2.1 FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Prior to 1 January 2008, the Bank prepared its statutory financial statements in accordance with "Accounting Standards for Business Enterprises" promulgated by the Ministry of Finance of the People's Republic of China ("MOF") before 15 February 2006 and the Accounting System for Financial Institutions promulgated by the MOF on 27 November 2001. In accordance with the Notice of Banking Institutions' Adoption of China Accounting Standard issued by CBRC (Yin Jian Tong [2007] No. 22) as at 29 September 2007, with effect from 1 January 2008, the Bank adopted the "Accounting Standards for Business Enterprises - Basic Standard" and 38 specific standards promulgated by the MOF on 15 February 2006, their application guidance and interpretations issued up to date, and other relevant requirements (here after collectively referred to as "New CAS"). The financial statements for the year ended 31 December 2008 are the Bank's first set of financial statements which are prepared under New CAS.

Upon first-time adoption of New CAS on 1 January 2008, the Bank has made retrospective adjustments to its prior period's financial statements in accordance with CAS 38 – First time adoption of New CAS and consequently, the comparative financial statements for the period from 26 May 2007 (date of conversion) to 31 December 2007 (the "Period") have been restated. The major adjustments made to the prior period's financial statements are as follows:

	Owner's equity as at 26 May 2007 (date of conversion)	Net profit for the period	Owner's equity as at 31 December 2007
Amounts reported in 2007 statutory financial statements, after adjusting undistributed profits to payable to parent company	3,941,037,524	34,452,143	3,975,489,667
Adjustments:			
- Allowance for impairment losses of loans and receivables (a)	5,532,982	38,221,644	43,754,626
- Fair value measurement for financial assets and financial liabilities at fair value through profit or loss (b)	-	(929,800)	(929,800)
- Adjustment of interest income and expenses using the effective interest method (c)	-	(2,447,070)	(2,447,070)
- Recognition of deferred tax assets and liabilities (d)	76,000,837	6,205,937	82,206,774
Restated amounts	4,022,571,343	75,502,854	4,098,074,197

The net impact on owner's equity arising from the first time adoption of New CAS at 26 May 2007 (date of conversion) which amounted to Rmb 22,571,343 was recorded in capital surplus.

2 BASIS OF PREPARATION (continued)

2.1 FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (continued)

a Previously the allowance for impairment loss for loans and advances was calculated at fixed percentages of the ending balances of respective risk grade categories in accordance with the "Guidance on the Provision for Bank Loan Losses" issued by the People's Bank of China ("PBOC") (Yin Fa [2002] No. 98) on 25 April 2002. Upon first-time adoption of New CAS, the Bank reassessed the allowances for impairment loss of its financial assets in accordance with CAS 22-Financial instrument Recognition and Measurement and made retrospective adjustment accordingly.

b Upon first-time adoption of New CAS, the Bank retrospectively classified all its debt securities and certain borrowings from other banks as financial assets and financial liabilities at fair value through profit or loss based on the management's intention at the transaction dates and measured them at fair value at balance sheet dates.

c Upon first-time adoption of New CAS, the Bank recognised the interest income and expenses for loans and advances and due to customers using the effective interest method. Prior period's amounts were retrospectively adjusted accordingly.

d The Bank retrospectively recognised deferred tax assets and liabilities arising from the differences between the carrying amounts of an asset or a liability and their respective tax bases at the balance sheet dates.

2.2 OTHER BASIS OF PREPARATION

These financial statements are prepared on accrual basis and under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are stated at fair value. The accounting policy for fair value of financial assets and financial liabilities is disclosed in Note 4(E).

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements for the year ended 31 December 2008 were prepared in accordance with Accounting Standards for Business Enterprise and presented fairly, the financial position of the Bank as of 31 December 2008, and its financial performance and its cash flows for the year then ended.

4 PRINCIPAL ACCOUNTING POLICIES

A Accounting period

The Bank's accounting period starts on 1 January and ends on 31 December.

B Functional currency

The Bank uses Renminbi ("Rmb") as its functional currency.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

C Foreign currency translation

Foreign currency transactions are translated into Rmb at the spot exchange rates at the dates of the transactions.

Monetary items denominated in foreign currencies are translated into Rmb at the spot exchange rates at the balance sheet dates and translation differences are recorded in the income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into Rmb at the spot exchange rates prevailing on transaction dates. Contributions to paid-in capital made in foreign currencies are translated into the Rmb denominated paid-in capital account at the stipulated exchange rates at the contribution dates.

D Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise assets balances with original maturities of three months or less from the date of acquisition including: cash, non-restricted balances with the central bank, deposits with other banks and placement with other banks.

E Financial assets and financial liabilities

(1) Financial assets and financial liabilities at fair value through profit or loss

This category includes: financial assets and financial liabilities held for trading, derivatives and those designated at fair value through profit or loss at inception.

A financial asset or a financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling, repurchasing or redemption in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading.

Financial assets or financial liabilities except for hybrid instruments are designated at fair value through profit or loss when:

- Doing so significantly reduces the inconsistencies of the gain and losses recognized in the income statements which resulted from the different measurement basis of these financial assets and liabilities;

- Certain financial assets or financial liabilities portfolios that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Financial assets or financial liabilities at fair value through profit or loss are measured at fair value at the initial recognition and subsequent balance sheet dates, and changes in fair value and the transaction costs are reported in income statement.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including deposits with the central bank, deposits with other banks, placement with other banks, reverse repos, loans and advances and investment securities classified as loans and receivables. When the Bank provides funds or services directly to customers and does not intend to sell the receivables, the Bank classifies such financial assets as loans and receivables and recognises them at fair value plus transaction costs at initial recognition. At subsequent balance sheet dates, such assets are measured at amortised cost using effective interest method less any impairment allowances.

(3) Available-for-sale financial assets

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value at balance sheet dates. Gains and losses arising from changes in the fair value of financial assets classified as available-for-sale financial assets are recognized directly in equity after deducting tax impact, until the financial assets are de-recognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement

(4) Held-to-maturity financial assets

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has both the positive intention and the ability to hold to maturity. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are measured at amortized cost, after deducting the allowance for impairment losses subsequently.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Bank fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Bank shall reclassify the entire held-to-maturity portfolio into available-for-sale investments at fair value and the Bank is further prohibited to designate any investments as held-to-maturity during the following two financial years.

(5) Other financial liabilities

Other financial liabilities are recognized initially at fair value, being their issuance proceeds net of transaction costs incurred. They are subsequently stated at amortized cost and any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets (continued)

De-recognition of financial assets and financial liabilities

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

Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of quoted investments in active markets are based on current bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

F Impairment of financial assets

(1) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The major criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer; or

4 PRINCIPAL ACCOUNTING POLICIES (continued)

F Impairment of financial assets (continued)

(1) Assets carried at amortised cost (continued)

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank 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 Bank determines that no objective evidence of impairment exists for an 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 recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in income statement. In practice, the Bank will also determine the fair value of the financial assets with the observed market value and assessed the impairment loss with that fair value.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of the portfolio's future cash flow should reflect changes related to the observed data of the phase change with the changes in direction and consistency. Expected to reduce differences between estimated losses and the actual losses, the Bank performs periodic review of the theory and hypothesis of the expected future cash flow.

When a loan is unrecoverable, it is written off against the related allowance on impairment losses. 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 decrease the amount of the Impairment losses for loans and advances in the income statement.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

F Impairment of financial assets (continued)

(1) Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

(2) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, 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 recognized in income statement, is removed from equity and recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

G Assets purchased under resale agreements ("Reverse repos") and assets sold under repurchase agreements ("repos")

Reverse repo refers to the agreement under which the Bank purchases an asset (e.g. security and bills) at a fixed price with an obligation to resell it to the same counterparty at a pre-determined price at a specified date. Such assets are recorded at actual amounts paid at acquisition and presented in "Assets purchased under resale agreement".

Repo refers to the agreement under which the Bank sells an asset (e.g. security and bills) at a fixed price with an obligation to repurchase it from the same counterparty at a pre-determined price at a specified date. Repos are recorded at the actual amounts received and presented in "Assets sold under repurchase agreements".

The difference between sale and repurchase price is treated as interest income or expenses and recognized over the life of the agreement using the effective interest method.

H Offsetting financial instruments

Financial assets and financial liabilities are separately presented in the balance sheet without any offsetting, except when:

(i) there is a legally enforceable right to set off the recognized amounts; or

(ii) there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

I Derivative financial instruments

Derivatives are initially recognised at fair value on the date at which a derivative contract is entered into and are subsequently re-measured at their fair value. Gain or losses from changes in the fair value are recorded in the income statement.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits or losses on day 1.

Certain derivatives are embedded in the non-derivative financial instruments (i.e. host contracts) and the embedded derivative and the corresponding host contract are collectively referred to as hybrid financial instruments. An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

The unrealized gain or loss arising from fair value measurement of separate derivative instrument is reported as the “fair value gains or losses” in the income statement.

J Fixed assets

Fixed assets comprise buildings, office equipment and furniture and computers. Fixed assets purchased or constructed by the Bank are initially recorded at cost.

Subsequent costs are included in the asset’s carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. However, the carrying amount of any parts of fixed assets that are being replaced shall be derecognised and all related subsequent costs are expensed when incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For impaired fixed assets, depreciation is calculated based on carrying amounts after deducting the provision for impairment over their estimated remaining useful lives.

Estimated useful lives, estimated residual value and annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	42 years	10%	2.14%
Office equipment and furniture	5-8 years	10%	11.25-18%
Computers	2-5 years	10%	18-45%

4 PRINCIPAL ACCOUNTING POLICIES (continued)

J Fixed assets (continued)

The Bank reviews the estimated residual value, useful lives and depreciation method of fixed assets and makes appropriate adjustments on an annual basis.

When the Bank disposes or ceases to use the fixed assets, or does not expect to further benefit from fixed assets, the Bank derecognises the assets. Proceeds from sale, transfer or disposal of fixed assets are recorded in the income statement after deducting carrying value and related taxes.

K Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvement and other expenses that have been incurred but are attributable to current and future periods, and should be amortised over a period of more than one year. Long-term prepaid expenses are amortised using straight-line method over their respective estimated beneficial periods and are presented at actual costs incurred net of accumulated amortisation.

L Impairment of non-financial assets

Fixed assets or other non-financial assets are reviewed for impairment if there are indications of impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Provision for impairment is determined on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Once an impairment loss is recognised, it shall not be reversed to the extent of recovery in value in subsequent periods.

M Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using its effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment options, call options and similar options) but does not consider future credit losses.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

M Interest income and expenses (continued)

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, such as transaction costs and all other premiums or discounts. If the cash flows cannot be estimated, the Bank shall use contractual cash flows in the entire contract period.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised 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

Fees and commissions are generally recognized on an accrual basis when the related service has been provided.

O Deferred income taxes

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. Deferred tax assets shall be recognised for deductible losses or tax credits that can be carried forward to subsequent years. The deferred tax assets and deferred tax liabilities at the balance sheet date shall be measured the tax rates that, according to the requirements of tax laws, are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets shall be recognised to the extent that it is probable that future taxable profit will be available against which the deductible losses and tax credits can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale investments is credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain and loss.

The Bank’s deferred income tax assets and liabilities are netted as the amounts are recoverable from or due to the same tax authority.

P Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the leaser are classified as operating leases.The Bank entered into various operating lease agreements to rent its branches’ offices and facilities. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lesser by way of penalty is recognized as an expense in the period in which termination takes place.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

Q Contingent liabilities and acceptances

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

R Financial guarantee contracts

The Bank has the following types of financial guarantee contracts: letters of credit and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for losses incurred when the guaranteed parties default under the original or modified terms of the specified debt instruments.

The Bank initially recognizes all financial guarantee contracts at fair value in the balance sheet, which is amortised into profit and loss account ratably over the guarantee period. Subsequently, they are carried at the higher of amortised carrying value or the provision required to meet the Bank's guarantee obligation. The changes in carrying value are recorded in the profit and loss account under fee and commission income.

The contractual amounts of financial guarantee contracts are disclosed as off-balance sheet items in Note 38.

S Employee benefits

Employee benefits consist of salary, bonus, allowance and subsidy, staff welfare funds, social insurance and housing fund, staff education funds and any other employee related benefits.

Employee benefits are recognised in the period of services rendered, and are capitalised in costs of assets or charged to income statement based on expected benefits generated from services rendered by employees.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

S Employee benefits (continued)

The Bank participates in social security plans managed by the Municipal Government, including pension, medical, housing and other welfare benefits. The Bank also participates in commercial insurance as a supplement to government managed social insurance. The Bank has no other substantial commitments to its employees.

Certain expatriate executives of the Bank are entitled to an equity-settled, share-based compensation plan operated by the DBS Group, under which the Bank receives services from these executives as consideration for equity instruments of the Group. Equity investments granted and ultimately vested under the plan are recognized in the income statement of the Bank based on the fair value of the equity investments at the date of grant. The expense is amortized over the vesting period with a corresponding adjustment to the payable to head office account.

T Provision

Provisions are recognized when the Bank has a present obligation as a result of past transactions or events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are initially determined using best estimates based on historical experience, taking into consideration the risks, uncertainties and discount effect related to contingencies. Where the effect of discounting future cash flow is significant, provisions shall be determined at the discounted future cash flows. The carrying amount of provision is reviewed, and adjusted if appropriate, to reflect best estimates of the Bank's management at each balance sheet date.

U Segment Reporting

A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. A business segment is a distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Bank defines geographical segment as its primary segment and business segment as its secondary segment.

The majority of the Bank's business activities are conducted within Shanghai, Beijing, Guangzhou, Shenzhen, Suzhou and Tianjin of the PRC.

The main business activities of the Bank include corporate investment banking, enterprise banking and treasury businesses.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgments 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. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

A Allowance for impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment except that there are known situation demonstrates impairment losses have occurred on quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. 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

The fair value of financial instruments that is not quoted in active markets is determined by using valuation techniques. To the extent practical, cash flow models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

C Income taxes

Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in the PRC is subject to tax authority’s approval, mainly like the impairment allowance for loans and advances. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

6 TAXATION

The Bank's business activities are mainly subject to following major taxes:

Tax	Tax rate	Tax basis
Corporate income tax	25%	Taxable income
Business tax	5%	Taxable revenue

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the corporate income tax rate applicable to the Bank from 1 January 2008 was reduced from 33% to 25%.

7 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2008	**31 December 2007**
Cash	17,644,851	5,972,455
Restricted reserve deposits with the PBOC	1,919,708,726	1,313,782,861
Balances with the PBOC other than restricted reserve deposits	2,071,538,792	1,813,617,783
	4,008,892,369	3,133,373,099

According to the relevant provisions of the PBOC, the required reserve ratio for customer deposits denominated in foreign currencies is 5% at 31 December 2008 (31 December 2007: 5%). Such reserve is non-interest-bearing.

According to the relevant provisions of the PBOC, the required reserve ratio for customer deposits denominated in Rmb is 13.5% at 31 December 2008 (31 December 2007: 14.5 %). Rmb deposit reserve bear interest at annual rate of 1.89%.

These reserve deposits are not available to fund the Bank's day-to-day operations.

(All amounts expressed in Rmb unless otherwise stated)

8 DEPOSITS WITH OTHER BANKS

	31 December 2008	31 December 2007
Deposits with domestic banks	3,813,269,493	1,821,224,902
Deposits with overseas banks	712,601,421	72,680,762
Deposits with overseas related parties	88,372,661	34,940,291
	4,614,243,575	1,928,845,955

9 PLACEMENT WITH OTHER BANKS

	31 December 2008	31 December 2007
Placements with domestic banks	200,000,000	315,710,380
Placements with overseas banks	946,250	-
	200,946,250	315,710,380

The term of placements with other banks ranging from 1 month to 3 months.

10 TRADING ASSETS

	31 December 2008	31 December 2007
Treasury bonds	32,760,119	-
PBOC notes	711,306,647	968,361,812
	744,066,766	968,361,812

Included in the balance of PBOC notes at 31 December 2008 was notes of Rmb 550 million which had been sold by the bank to counterparty with contracted obligation to buy back on 8 January 2009. These assets were not available for spot sale by the Bank until 8 January 2009.

11 DERIVATIVE INSTRUMENTS

The following derivative instruments are utilized by the Bank for trading purpose:

Foreign exchange forwards represent commitments to purchase/sell foreign exchanges including unsettled spot transactions.

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Foreign currency options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair value of financial instruments that is not quoted in active markets is determined by using valuation techniques. To the extent practical, cash flow models use only observable data, like interest rate and foreign currency rate, certain data like credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(All amounts expressed in Rmb unless otherwise stated)

11 DERIVATIVE INSTRUMENTS (continued)

The notional amount and fair value of the Bank's derivative financial instruments are as follows:

31 December 2008	Notional amount	Fair value Assets	Fair value Liabilities
Foreign exchange derivatives			
Foreign exchange forward	35,564,120,306	298,072,455	(252,219,347)
Foreign exchange options	7,840,222,099	16,303,754	(16,303,754)
	43,404,342,405	314,376,209	(268,523,101)
Interest rate derivatives			
Interest rate swaps	8,806,495,275	86,606,176	(86,188,303)
Interest rate cap and floor	1,263,864,850	3,930,001	(3,930,001)
	10,070,360,125	90,536,177	(90,118,304)
Other derivatives			
Equity options	11,509,305	14,935	(14,935)
	11,509,305	14,935	(14,935)
Total	53,486,211,835	404,927,321	(358,656,340)

31 December 2007	Notional amount	Fair value Assets	Fair value Liabilities
Foreign exchange derivatives			
Foreign exchange forward	17,510,692,904	199,014,891	(220,553,500)
Foreign exchange options	11,468,754,737	14,308,792	(14,308,792)
	28,979,447,641	213,323,683	(234,862,292)
Interest rate derivatives			
Interest rate swaps	2,510,808,562	19,442,733	(17,281,045)
Interest rate cap and floor	435,715,292	10,447	(10,447)
	2,946,523,854	19,453,180	(17,291,492)
Total	31,925,971,495	232,776,863	(252,153,784)

(All amounts expressed in Rmb unless otherwise stated)

12 INTEREST RECEIVABLE

	31 December 2008	31 December 2007
Interest receivable from:		
Loans and advances to customers	228,702,304	179,128,875
Deposits and placement with other banks	26,817,847	11,270,114
Deposits with the central bank	831,781	1,240,691
	256,351,932	191,639,680

13 LOANS AND ADVANCES

	31 December 2008	31 December 2007
Retail loans		
-Mortgage loans	1,241,540,386	677,031,678
-Others	1,283,530,887	552,848,749
Retail loans	2,525,071,273	1,229,880,427
Corporate loans and advances to customers		
-Loans	22,005,549,230	20,139,046,838
-Import and export bills	253,417,333	499,467,508
-Discounted bills and others	2,242,149,213	1,741,253,142
Corporate loans	24,501,115,776	22,379,767,488
Total loans	27,026,187,049	23,609,647,915
Individual impairment allowance	(248,383,857)	(90,823,310)
Collective impairment allowance	(225,845,006)	(204,079,173)
Total impairment allowance	(474,228,863)	(294,902,483)
Loans and advances, Net	26,551,958,186	23,314,745,432

(All amounts expressed in Rmb unless otherwise stated)

13 LOANS AND ADVANCES (continued)

(1) Industry sector:

	31 December 2008		31 December 2007	
	Balance	**%**	**Balance**	**%**
Retail consumer loans	2,525,071,273	9%	1,229,880,427	5%
Manufacturing	11,269,500,771	42%	11,814,306,687	50%
Real estate	6,714,841,730	25%	4,741,428,802	20%
Trading and retail	1,503,112,186	6%	1,361,696,057	6%
Leasing and commercial services	1,493,569,801	6%	1,413,586,740	7%
Financial institutions	1,115,155,813	4%	816,199,959	3%
Information and technology	674,073,228	2%	589,604,492	2%
Retail service	504,252,865	2%	319,695,082	1%
Transportation	362,207,922	1%	435,454,689	2%
Construction	301,173,221	1%	243,852,947	1%
Hotel and restaurant	212,815,721	1%	16,699,898	0%
Environment and public facilities	180,389,151	1%	229,260,950	1%
Power, energy and water	42,794,400	-	212,000,000	1%
Others	127,228,967	-	185,981,185	1%
Total, gross	27,026,187,049	100%	23,609,647,915	100%

(2) Geographic sector:

	31 December 2008	31 December 2007
Shanghai	14,847,558,427	12,260,551,884
Beijing	3,965,013,101	3,410,251,222
Shenzhen	5,287,472,787	5,583,810,623
Guangzhou	1,720,511,549	1,236,303,057
Suzhou	1,200,054,328	1,118,731,129
Tianjin	5,576,857	-
Total, gross	27,026,187,049	23,609,647,915

(3) By type of security:

	31 December 2008	31 December 2007
Clean loans	3,304,205,931	5,293,855,933
With guarantee only	4,365,615,585	8,802,757,274
With collateral only	9,932,714,261	4,327,606,986
With both collateral and guarantee	9,423,651,272	5,185,427,722
Total, gross	27,026,187,049	23,609,647,915

(All amounts expressed in Rmb unless otherwise stated)

13 LOANS AND ADVANCES (continued)

(4) Loans and advances past due:

	31 December 2008				
	Past due up to 90 days	Past due 90 - 365 days	Past due 1 - 3 years	Past due over 3 years	Total
Clean loans	46,491,123	20,812,752	2,873,010	-	70,176,885
With guarantee only	102,673,183	8,497,497	4,845,870	-	116,016,550
With collateral only	88,774,248	133,710,676	24,949,927	52,870,338	300,305,189
With both collateral and guarantee	231,407,360	158,946,819	63,912,973	-	454,267,152
	469,345,914	321,967,744	96,581,780	52,870,338	940,765,776

	31 December 2007				
	Past due up to 90 days	Past due 90 - 365 days	Past due 1 - 3 years	Past due over 3 years	Total
Clean loans	179,358,449	15,414,154	13,150,300	-	207,922,903
With guarantee only	154,790,082	8,763,395	19,456,398	49,129,342	232,139,217
With collateral only	132,329,148	23,165,904	10,220,000	-	165,715,052
With both collateral and guarantee	296,628,729	29,874,473	-	-	326,503,202
	763,106,408	77,217,926	42,826,698	49,129,342	932,280,374

(5) Allowance for impairment losses on loans and advances:

	2008		
	Individually assessed	Collectively assessed	Total
At 1 January	90,823,310	204,079,173	294,902,483
Impairment losses for loans and advances (Note 35)	170,644,347	31,900,085	202,544,432
Write-off	(13,083,800)	-	(13,083,800)
Exchange difference	-	(10,134,252)	(10,134,252)
At 31 December	248,383,857	225,845,006	474,228,863

	2007		
	Individually assessed	Collectively assessed	Total
At 26 May	111,598,194	139,718,231	251,316,425
Impairment losses for loans and advances (Note 35)	(19,786,476)	71,992,818	52,206,342
Write-off	(988,408)	-	(988,408)
Exchange difference	-	(7,631,876)	(7,631,876)
At 31 December	90,823,310	204,079,173	294,902,483

(All amounts expressed in Rmb unless otherwise stated)

14 FIXED ASSETS

	Buildings	Office equipment and furniture	Computers	Total
Cost				
At 1 January 2008	50,255,661	6,358,632	8,591,404	65,205,697
Add: Additions	-	12,002,896	6,042,494	18,045,390
Less: Disposals	-	(1,053,585)	(1,547,900)	(2,601,485)
At 31 December 2008	50,255,661	17,307,943	13,085,998	80,649,602
Accumulated depreciation				
At 1 January 2008	11,158,628	2,943,618	4,747,140	18,849,386
Add: Additions	194,779	1,856,574	2,434,932	4,486,285
Less: Disposals	-	(693,390)	(1,335,778)	(2,029,168)
At 31 December 2008	11,353,407	4,106,802	5,846,294	21,306,503
Net book value				
At 31 December 2008	38,902,254	13,201,141	7,239,704	59,343,099
Provision for impairment				
At 1 January 2008 and 31 December 2008	(33,253,667)	-	-	(33,253,667)
Net value				
At 31 December 2008	5,648,587	13,201,141	7,239,704	26,089,432

(All amounts expressed in Rmb unless otherwise stated)

14 FIXED ASSETS (continued)

	Buildings	Office equipment and furniture	Computers	Total
Cost				
At 26 May 2007	50,255,661	5,694,116	7,987,140	63,936,917
Add: Additions	-	758,930	1,065,847	1,824,777
Less: Disposals	-	(94,414)	(461,583)	(555,997)
At 31 December 2007	50,255,661	6,358,632	8,591,404	65,205,697
Accumulated depreciation				
At 26 May 2007	11,023,178	2,520,214	4,315,160	17,858,552
Add: Additions	135,450	513,555	815,661	1,464,666
Less: Disposals	-	(90,151)	(383,681)	(473,832)
At 31 December 2007	11,158,628	2,943,618	4,747,140	18,849,386
Net book value				
At 31 December 2007	39,097,033	3,415,014	3,844,264	46,356,311
Provision for impairment				
At 26 May 2007 and 31 December 2007	(33,253,667)	-	-	(33,253,667)
Net value				
At 31 December 2007	5,843,366	3,415,014	3,844,264	13,102,644

15 LONG-TERM PREPAID EXPENSES

	Leasehold improvement	Prepaid service fee	Others	Total
As at 1 January 2008	24,777,642	19,214,798	2,060,263	46,052,703
Additions	44,720,284	6,516,880	4,638,022	55,875,186
Disposals	(870,013)	-	-	(870,013)
Amortization	(14,076,195)	(3,321,335)	(4,746,352)	(22,143,882)
As at 31 December 2008	54,551,718	22,410,343	1,951,933	78,913,994
As at 26 May 2007	24,772,979	5,052,795	4,917,821	34,743,595
Additions	5,121,054	18,757,409	-	23,878,463
Amortization	(5,116,391)	(4,595,406)	(2,857,558)	(12,569,355)
As at 31 December 2007	24,777,642	19,214,798	2,060,263	46,052,703

(All amounts expressed in Rmb unless otherwise stated)

16 OTHER ASSETS

	31 December 2008	31 December 2007
Rental deposits	20,163,439	13,701,317
Receivables from related parties	58,422,104	29,322,482
Others	36,068,182	16,138,569
	114,653,725	59,162,368

17 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2008	31 December 2007
Deposit from domestic banks	1,607,911,424	1,224,097,916
Deposit from domestic related parties	243,201,157	216,242,203
Deposit from overseas related parties	41,231,579	50,465,374
	1,892,344,160	1,490,805,493

18 PLACEMENTS FROM OTHER BANKS

	31 December 2008	31 December 2007
Placements from domestic banks	2,694,314,849	3,109,007,423
Placements from overseas related parties	8,801,796,709	9,242,554,892
	11,496,111,558	12,351,562,315

The terms of placements from other banks range from 1 month to 3 years.

19 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2008	31 December 2007
Borrowings from other banks designated at fair value through profit or loss, at fair value	51,013,114	373,082,421

(All amounts expressed in Rmb unless otherwise stated)

20 DUE TO CUSTOMERS

	31 December 2008	31 December 2007
Corporate current deposits	5,190,102,368	3,594,864,685
Corporate time deposits	11,580,911,865	6,859,653,282
Retail current deposits	202,903,253	139,050,211
Retail time deposits	1,357,966,564	340,241,767
	18,331,884,050	10,933,809,945

21 STAFF PAYROLL AND WELFARE PAYABLE

	31 December 2008	31 December 2007
Salary and bonus	28,692,251	45,323,523
Pension benefits	9,775,544	4,807,500
	38,467,795	50,131,023

22 TAXES PAYABLE

	31 December 2008	31 December 2007
Income tax	25,221,015	28,904,643
Business tax and surcharges	20,694,853	18,511,194
Withholding income tax	22,722,941	-
Individual income tax and others	12,944,058	18,091,401
	81,582,867	65,507,238

23 INTEREST PAYABLE

	31 December 2008	31 December 2007
Due to customers	152,195,555	70,728,048
Due to other banks and financial institutions	52,839,332	109,870,703
	205,034,887	180,598,751

(All amounts expressed in Rmb unless otherwise stated)

24 DEFERRED INCOME TAX ASSETS

Deferred income taxes 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 using tax rate of 25% (31 December 2007: 25%).

	2008	2007
At beginning of year/period	82,206,774	76,000,837
Income statement credit (Note 36)	1,123,139	6,205,937
At end of year/period	83,329,913	82,206,774

Net deferred income tax assets arose from following temporary differences:

	31 December 2008	31 December 2007
Allowance for impairment of loans and advances	63,824,737	63,901,061
Provision for impairment of fixed assets	8,313,417	8,313,417
Fair value measurement of financial instruments	(3,753,427)	232,450
Interest receivable overdue for more than 90 days	13,955,034	8,422,197
Others	990,152	1,337,649
	83,329,913	82,206,774

25 OTHER LIABILITIES

	31 December 2008	31 December 2007
Accrued expenses	25,448,913	9,400,376
Settlement accounts	4,309,022	24,752,107
Unearned commission income	8,343,333	-
Provision for off-balance credit exposures	13,344,756	7,757,378
Accounts payable	36,092,926	300,650,081
Payable to overseas related parties	120,045,710	110,179,618
Others	8,741,358	37,512,983
	216,326,018	490,252,543

(All amounts expressed in Rmb unless otherwise stated)

26 PAID-IN CAPITAL

	31 December 2008	31 December 2007
Registered and fully paid by DBS Bank	4,000,000,000	4,000,000,000

The above registered and paid-in capital has been verified by Ernest & Young Hua Ming CPAs Company Limited.

27 CAPITAL SURPLUS

Upon approval from the Board of Directors, capital surplus, other than those relating to receipts of donated non-cash assets and equity investments held, can be used to increase capital. Capital surplus arising from receipts of donated non-cash assets and equity investments can only be used to increase capital after the donated assets or investments have been disposed of.

28 SURPLUS RESERVE

	Reserve fund
Balance as at 26 May 2007	-
Current period addition	7,550,285
Balance as at 31 December 2007	7,550,285
Current year addition	31,487,848
Balance as at 31 December 2008	39,038,133

In accordance with the Article 167 of Company Law of PRC and the Company's Articles of Association, appropriations from net profit should be made to the Reserve Fund, after offsetting accumulated losses from prior years, and before profit distributions to the parent. The percentages to be appropriated to the Reserve Fund are determined by the Board of Directors of the Bank, but should not be less than 10% of net income after tax before accumulated Reserve Fund reaching 50% or more of the registered capital. Upon approval from the Board of Directors, the Reserve Fund can be used to offset accumulated losses or to increase capital.

Reserve Fund for the period from 26 May 2007 (date of conversion) to 31 December 2008 had been retrospectively adjusted upon first-time adoption of the New CAS.

29 UNDISTRIBUTED PROFITS

Pursuant to Circulars No. 49 and No. 90 issued by MOF in 2005 (the "MOF Circulars"), effective from 1 July, 2005, banks and certain other financial institutions in the PRC, are required to maintain adequate allowances for impairment losses against their risk assets. In addition, a general reserve should be established through the appropriation of retained earnings. This general reserve should form part of the owner's equity of financial institutions. As a guiding principle, the balance of general reserve should not be less than 1% of the aggregated amount of all risk assets.

On 10 February 2009, the directors approved the following appropriations to the Bank's undistributed profits:

	31 December 2008
General banking reserve	319,600,000

(All amounts expressed in Rmb unless otherwise stated)

30 NET INTEREST INCOME

	2008	Period from 26 May 2007 to 31 December 2007
Interest income:		
Loans and advances	1,820,404,775	774,222,695
Placement with other banks	23,285,274	76,742,681
Trading assets	88,269,900	14,475,407
Deposits with other banks	105,350,840	110,875,475
Deposits with the central bank	35,227,717	11,238,964
	2,072,538,506	987,555,222
Interest expense:		
Placements from other banks	481,201,119	407,643,828
Due to other banks and financial institutions	67,486,897	20,948,719
Due to customers	414,062,006	87,747,020
	962,750,022	516,339,567
Net interest income	1,109,788,484	471,215,655

31 NET FEE AND COMMISSION INCOME

	2008	Period from 26 May 2007 to 31 December 2007
Fee and commission income		
Settlement and clearing fees	50,758,982	24,203,455
Credit related fees and commissions	59,943,657	54,971,713
Others	1,872,659	2,246,175
	112,575,298	81,421,343
Fee and commission expense		
Settlement and clearing fees	5,795,671	3,831,090
Net fee and commission income	106,779,627	77,590,253

32 INVESTMENT LOSS

	2008	Period from 26 May 2007 to 31 December 2007
Disposal of trading securities	4,126,828	4,472,511

(All amounts expressed in Rmb unless otherwise stated)

33 FAIR VALUE GAINS/(LOSSES)

	2008	Period from 26 May 2007 to 31 December 2007
Net gains/(losses) on derivative instruments	65,647,902	(19,376,921)
Net gains/(losses) on trading assets	15,943,508	(929,800)
	81,591,410	(20,306,721)

34 GENERAL AND ADMINISTRATIVE EXPENSES

	2008	Period from 26 May 2007 to 31 December 2007
Salaries and bonus	230,396,368	130,009,392
Social insurance and other welfare benefits	58,053,590	18,392,821
Rental and utilities	67,705,452	24,642,250
Telecommunications and computers	49,034,575	20,012,613
Travelling expenses	10,528,518	5,647,641
Entertainment expenses	2,155,531	1,362,042
Depreciation and amortization	26,630,167	14,034,021
Staff training expenses	2,699,334	1,734,297
Others	52,568,220	41,125,647
	499,771,755	256,960,724

35 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2008	Period from 26 May 2007 to 31 December 2007
Impairment losses on loans and advances (Note 13(5))	202,544,432	52,206,342
Recovery of loans previously written-off	-	(9,981,969)
	202,544,432	42,224,373
Provision/(reversal of provision) for off-balance credit exposure	5,587,378	(342,894)
	208,131,810	41,881,479

(All amounts expressed in Rmb unless otherwise stated)

36 INCOME TAX

	2008	Period from 26 May 2007 to 31 December 2007
Current income tax	93,631,332	37,335,123
Deferred income tax	(1,123,139)	(6,205,937)
	92,508,193	31,129,186

The actual income tax expense differs from the theoretical amount that would arise using the standard tax rate of 25%:

	2008	Period from 26 May 2007 to 31 December 2007
Profit before income tax	407,386,670	106,632,040
Provision for income tax calculated at 25 % (2007: 33%)	101,846,668	35,188,573
Clearance of income tax upon local incorporation	(11,604,726)	-
Effect of expenses not deductible for tax purposes	2,266,251	843,784
Impact on deferred income tax from change in income tax rate	-	(4,903,171)
	92,508,193	31,129,186

37 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	31 December 2008	31 December 2007
Cash (Note 7)	17,644,851	5,972,455
Balances with the PBOC other than restricted reserve deposits (Note 7)	2,071,538,792	1,813,617,783
Deposits with other banks with maturity less than three months from acquisition date	3,860,342,350	1,876,402,433
Placements with other banks with maturity less than three months from acquisition date	100,946,250	169,618,380
Total	6,050,472,243	3,865,611,051

(All amounts expressed in Rmb unless otherwise stated)

37 NOTES TO THE STATEMENT OF CASH FLOWS

		Notes	2008	Period from 26 May 2007 to 31 December 2007
(2)	**Cash flows from operating activities**			
	Net profit after tax:		314,878,477	75,502,854
	Adjusted by:			
	Impairment charge for credit losses	35	208,131,810	41,881,479
	Depreciation and amortization	34	26,630,167	14,034,021
	Loss on disposal of fixed assets, intangible assets and other long-term assets		1,442,330	55,459
	Fair value gain/(loss)	33	81,591,410	20,306,721
	Increase in deferred income tax		(1,123,139)	(6,205,937)
	Increase in operating receivables		(4,729,822,872)	(1,258,088,825)
	Increase in operating payables		6,477,929,898	4,054,022,020
	Net cash provided from operating activities		2,379,658,081	2,941,507,792
(3)	**Investing and financing activities that do not involve cash receipts and payments**		-	-
(4)	**Net increase in cash and cash equivalents:**			
	Cash and cash equivalents at end of year/period		6,050,472,243	3,865,611,051
	Less: cash and cash equivalents at beginning of year/period		3,865,611,051	1,105,034,182
	Net increase in cash and cash equivalents		2,184,861,192	2,760,576,869

(All amounts expressed in Rmb unless otherwise stated)

38 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Off-balance sheet items

	31 December 2008	31 December 2007
Letters of guarantee issued	1,069,234,917	547,812,841
Letters of credit issued	441,660,224	859,343,478
Loan commitment	6,694,476,540	3,434,420,303
Bank acceptances	265,150,525	111,187,310
	8,470,522,206	4,952,763,932

(2) Operating lease commitments

Future minimum lease payments under non-cancelable operating leases in respect of office premises are as follows:

	31 December 2008	31 December 2007
Within 1 year	77,544,428	55,576,604
Over 1 year less than 2 years	57,095,194	25,905,273
Over 2 years	26,656,795	12,490,705
	161,296,417	93,972,582

(3) Legal proceedings

At 31 December 2008, there was no significant legal proceeding against the Bank (31 December 2007: nil).

(4) Capital commitments

As at 31 December 2008, the Bank has no significant capital commitments which require separate disclosure (31 December 2007: nil).

39 EVENTS AFTER THE BALANCE SHEET DATE

Up to 10 February 2009, there were no significant post-balance sheet events which are required to be disclosed in the financial statements.

(All amounts expressed in Rmb unless otherwise stated)

40 SEGMENT INFORMATION

40.1 Geographical segments

For the year ended 31 December 2008	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Tianjin	Elimination	Total
Interest income	35,388,938	1,153,338,942	330,261,403	495,148,803	163,454,450	91,721,192	1,170,085	(197,945,307)	2,072,538,506
Interest expense	-	(597,508,821)	(182,560,720)	(244,555,198)	(78,217,555)	(57,812,489)	(40,546)	197,945,307	(962,750,022)
Net interest income	35,388,938	555,830,121	147,700,683	250,593,605	85,236,895	33,908,703	1,129,539	-	1,109,788,484
Fee and commission income	23,481	53,809,289	14,239,912	34,320,964	7,472,686	2,666,251	42,715	-	112,575,298
Fee and commission expenses	(838)	(406,046)	(310,495)	(2,719,694)	(2,305,009)	(37,539)	(16,050)	-	(5,795,671)
Net fee and commission income	22,643	53,403,243	13,929,417	31,601,270	5,167,677	2,628,712	26,665	-	106,779,627
Other income/(losses)	(89,210,716)	111,473,429	(13,611,201)	(7,076,027)	(10,729,705)	(9,338,552)	39,374	-	(18,453,398)
Operating expenses	(66,513,227)	(389,033,517)	(72,991,885)	(139,404,454)	(94,458,380)	(27,589,780)	(11,402,654)	-	(801,393,897)
Non-operating income/(losses)	6,176,496	3,820,798	(885,467)	1,680,828	(121,112)	(5,689)	-	-	10,665,854
								-	
Total profit/(loss) before tax	(114,135,866)	335,494,074	74,141,547	137,395,222	(14,904,625)	(396,606)	(10,207,076)	-	407,386,670
Total assets	5,182,058,326	24,274,394,472	6,151,444,321	8,637,714,535	3,210,506,895	1,875,681,927	1,679,857,217	(13,927,284,230)	37,084,373,463
Total liabilities	(2,137,000,808)	(23,721,430,933)	(5,929,347,829)	(8,312,986,128)	(3,121,136,936)	(1,786,738,092)	(1,590,064,293)	13,927,284,230	(32,671,420,789)
Impairment charge for credit losses	-	(115,223,064)	(612,403)	(41,762,817)	(48,700,910)	(1,784,288)	(48,328)	-	(208,131,810)
Depreciation and amortization	(388,361)	(8,870,877)	(2,861,841)	(5,254,344)	(2,026,198)	(1,543,008)	(5,685,538)	-	(26,630,167)
Capital expenditure	-	28,486,543	18,364,192	3,342,424	9,265,020	5,468,708	8,993,689	-	73,920,576

(All amounts expressed in Rmb unless otherwise stated)

40 SEGMENT INFORMATION (continued)

40.1 Geographical segments (continued)

For the period from 26 May 2007(date of conversion) to 31 December 2007	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Elimination	Total
Interest income	34,000,918	494,922,498	144,841,818	263,820,101	54,890,243	33,771,393	(38,691,749)	987,555,222
Interest expense	-	(284,011,646)	(93,014,305)	(122,830,052)	(30,488,607)	(24,686,706)	38,691,749	(516,339,567)
Net interest income	34,000,918	210,910,852	51,827,513	140,990,049	24,401,636	9,084,687	-	471,215,655
Fee and commission income	-	41,663,328	15,342,917	20,464,429	2,977,720	972,949	-	81,421,343
Fee and commission expenses	(2,243)	(1,422,031)	(225,846)	(2,158,344)	-	(22,626)	-	(3,831,090)
Net fee and commission income	(2,243)	40,241,297	15,117,071	18,306,085	2,977,720	950,323	-	77,590,253
Other income/(losses)	(108,800,090)	8,042,128	(3,643,814)	811,661	(6,413,606)	(6,100,954)	-	(116,104,675)
Operating expenses	(59,698,113)	(155,665,645)	(15,484,722)	(72,859,801)	(16,960,645)	(14,593,617)	-	(335,262,543)
Non-operating income/(losses)	7,975,442	1,247,168	(35,104)	3,329	2,515	-	-	9,193,350
Total profit/(loss) before tax	(126,524,086)	104,775,800	47,780,944	87,251,323	4,007,620	(10,659,561)	-	106,632,040
Total assets	4,715,762,682	16,939,462,190	4,984,503,545	6,873,715,274	1,724,592,337	1,602,074,301	(6,554,132,619)	30,285,977,710
Total liabilities	(1,352,143,881)	(16,744,097,957)	(4,828,733,133)	(6,684,096,273)	(1,620,305,755)	(1,512,659,133)	6,554,132,619	(26,187,903,513)
Impairment charge for credit losses	(13,290,360)	(19,001,605)	9,509,663	(15,534,516)	1,157,054	(4,721,715)	-	(41,881,479)
Depreciation and amortization	(355,486)	(5,768,986)	(1,129,308)	(2,719,638)	(612,599)	(3,448,004)	-	(14,034,021)
Capital expenditure	2,344,847	22,705,599	30,425	25,000	231,561	365,808	-	25,703,240

(All amounts expressed in Rmb unless otherwise stated)

40 SEGMENT INFORMATION (continued)

40.2 Business segments

Business income	2008	Period from 26 May 2007 to 31 December 2007
Corporate investment banking	539,796,058	178,429,808
Enterprise banking	420,497,550	184,094,045
Treasury	204,642,706	43,611,268
Other	33,178,399	26,566,112
Total	1,198,114,713	432,701,233

Total assets	31 December 2008	31 December 2007
Corporate investment banking	16,398,980,028	15,212,738,550
Enterprise banking	8,926,524,062	8,385,966,514
Treasury	8,035,722,705	4,759,477,869
Other	3,402,514,753	1,721,297,831
Un-allocated	320,631,915	206,496,946
Total	37,084,373,463	30,285,977,710

(All amounts expressed in Rmb unless otherwise stated)

41 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties who control the Bank or are controlled by the Bank

Name of entity	Registered location	Main business	Relations with the bank	Registered capital	Chairman of the Board
DBS Bank Ltd.	Singapore	Banking and financial service	Parent company	SGD 12,096 million	Koh Boon Hwee

(b) Registered Capital of related party which control the Bank or are controlled by the Bank and their changes

Name of entity	31 December 2007	Change	31 December 2008
DBS Bank Ltd.	SGD 12,096 Million	-	SGD 12,096 Million

(c) Shares of interest of related parties who control the Bank or are controlled by the Bank and their changes

Name of entity	31 December 2007		Change		31 December 2008	
	Amount	%	Amount	%	Amount	%
DBS Bank Ltd.	Rmb 4 Billion	100	-	-	Rmb 4 Billion	100

(d) Nature of related parties which do not control the Bank or are controlled by the Bank

Names of related parties	Relationship with the Bank
DBS Bank (Hong Kong) Limited	Company controlled by the parent company
DBS (China) Investment Ltd.	Company controlled by the parent company (disposed in 2008)
DBS Asia Capital Ltd.	Company controlled by the parent company
DBS Vickers (Hong Kong) Ltd.	Company controlled by the parent company

(e) Related party transactions

(1) Pricing policy

The major transactions entered into by the Bank with its related parties are inter-bank borrowing and lending. The terms of inter-bank borrowing and lending with related parties follow commercial terms arranged in the ordinary course of the Bank's business.

(All amounts expressed in Rmb unless otherwise stated)

41 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Significant related party transactions

(i) Interest income

	2008	Period from 26 May 2007 to 31 December 2007
DBS Bank Ltd.	3,937,183	8,196,213
DBS Bank (Hong Kong) Limited	621,667	2,134,246
	4,558,850	10,330,459

(ii) Interest expense

	2008	Period from 26 May 2007 to 31 December 2007
DBS Bank Ltd.	232,676,439	231,129,044
DBS Bank (Hong Kong) Limited	64,939,659	53,080,119
	297,616,098	284,209,163

(3) Balances with related parties

(i) Due from:

	31 December 2008	31 December 2007
DBS Bank Ltd.	9,679,085	34,494,734
DBS Bank (Hong Kong) Limited	78,693,576	445,557
	88,372,661	34,940,291

	31 December 2008	31 December 2007
(ii) Other receivable:		
DBS Bank Ltd.	1,087,203	-
DBS Bank (Hong Kong) Limited	57,334,901	29,322,482
	58,422,104	29,322,482

(All amounts expressed in Rmb unless otherwise stated)

41 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Balances with related parties (continued)

(iii) Deposits / placements from:

	31 December 2008	31 December 2007
DBS Bank Ltd.	6,730,234,644	7,568,345,820
DBS Bank (Hong Kong) Limited	2,355,994,801	1,725,603,727
DBS (China) Investment Ltd.	-	211,282,531
DBS Asia Capital Ltd.	-	3,664,807
DBS Vickers (Hong Kong) Ltd.	-	365,584
	9,086,229,445	9,509,262,469

(v) Interest payable

	31 December 2008	31 December 2007
DBS Bank Ltd.	10,868,110	69,778,755
DBS Bank (Hong Kong) Limited	10,167,807	7,203,302
	21,035,917	76,982,057

(vi) Other payables:

	31 December 2008	31 December 2007
DBS Bank Ltd.	104,187,129	100,441,612
DBS Bank (Hong Kong) Limited	15,858,581	7,589,503
DBS (China) Investment Ltd.	-	2,148,503
	120,045,710	110,179,618

(vii) Derivative transactions

	31 December 2008	
	Notional amount	Fair value
Derivative transactions	11,633,385,746	26,392,483

	31 December 2007	
	Notional amount	Fair value
Derivative transactions	9,286,305,338	(3,337,918)

42 FINANCIAL RISK MANAGEMENT

42.1 Risk governance

Under the Bank's risk governance framework, the Board of Directors, through the Board Audit Committee, oversees the establishment of robust enterprise-wide risk management policies and processes. Where necessary, the Bank sets risk appetite limits to guide risk-taking.

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 committees are mandated to focus on specific risk areas. These oversight committees are China Management Committee and China Asset and Liability Committee.

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with the business units, 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 Bank's risk governance framework.

42.2 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty may fail to discharge an obligation, resulting in financial losses to the Bank. Significant changes in the economy, or in a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit exposures arise principally in loans and advances, debt securities and due from banks and other financial institutions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The majority of the Bank's operation is located within the various major cities across China. However different areas in China have their own unique characteristics in economic development, management therefore closely monitors its exposure to credit risk. China Credit Risk management department at Head Office centrally coordinates the Bank's credit risk management functions and reports to the Bank's senior management. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers. Such risks are monitored on a regular basis and subject to an annual review.

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

A Credit risk measurement

(i) *Loans and advances and off balance exposures*

The Bank uses internal rating system adopted by the group to identify, out of the 11 broad ratings in the system, the risk rating of the borrowers. At the same time, the Bank also assigns loan grade to each facility under a five grade asset classification system to manage the quality of its loan portfolio. Such classification system is based on “the Guidance on Credit Risk Classification” (”the Guidance”) issued by CBRC. Under the Bank’s own system and the CBRC Guidance, the Bank classifies its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special mention, substandard, doubtful and loss. The last three categories are also classified as “non-performing credit assets”.

The core definition of the Bank’s credit asset classification is as follows:

Pass: The borrower is able to fulfil the contractual obligations, and there is no uncertainty that principal and interest can be paid on time

Special Mention: The borrower is able to make current due payments, but there exist some indications that may have negative impact on the borrower’s future payments.

Substandard: The borrower's repayment ability has been in doubt and its normal income cannot repay the loan principal and interest in full. Losses may be incurred by the Bank, even with the enforcement of guarantees and collateral.

Doubtful: The borrower cannot repay the principal and the interest in full. Significant losses will be incurred even with the enforcements of guarantees and collateral.

Loss: After taking into consideration all possible recovery actions and necessary legal procedures, the principal and interest cannot be collected, or only a very small portion of principal and interest can be collected.

(ii) *Debt securities*

The Bank manages credit risks through limiting the issuers’ credit rating. Investments in Rmb debt securities are limited to treasury bonds and PBOC notes.

(iii) *Loans to other banks and financial institutions*

The Head Office reviews and monitors the credit risk of individual financial institutions on regular basis. Limits are placed for each individual bank or non-banking financial institution which has business relationship with the Bank.

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

B Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risks accepted in relation to single borrower and groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, where necessary.

Exposures to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

(i) *Collateral*

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, equipment, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash deposits.

Value of collateral is usually assessed by professional valuer designated by the Bank. To mitigate the credit risk, the Bank sets limit on the loan-to-value ratio for different types of collateral. The principal types of collateral for corporate loans and retail loans are as follows:

Collateral	**Maximum loan-to-value ratio**
Time deposit (non-matching currency)	90%
PRC treasury bonds	90%
PRC financial institution bonds	80%
Local real estate and land use rights	70%

The Bank normally requests guarantees for loans to corporate entities and retail customers.

The Bank will evaluate the financial condition, credit history and ability to meet obligations of the guarantor on regular basis.

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

B Risk limit control and mitigation policies (continued)

(i) *Collateral (continued)*

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(ii) *Derivative instruments*

The Bank maintains strict credit limits on derivative transactions with counterparties.

(iii) *Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. In some cases, such as those situations where the amount of credit commitment exceeds the original credit limit, guarantee deposits are received by the Bank to lessen the credit risks related to certain of these commitments provided by the Bank. The Bank's potential amount of credit risk is generally equivalent to the total amount of credit commitments.

C Impairment and provisionning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The objective evidences of impairment are as follows:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position; and
- Downgrading below Special Mention rating.

The Bank’s policy requires review of impairment for individual financial assets that are above materiality thresholds at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

C Impairment and provisioning policies (continued)

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

D Maximum exposure to credit risk before collateral held or other credit enhancements

	31 December 2008	31 December 2007
Deposits with other banks	4,614,243,575	1,928,845,955
Placement with other banks	200,946,250	315,710,380
Trading assets	744,066,766	968,361,812
Derivative Assets	404,927,321	232,776,863
Interest receivable	256,351,932	191,639,680
Loans to corporate entities	24,042,175,763	22,090,816,839
Loans to individuals	2,509,782,423	1,223,928,593
Other financial assets	94,490,286	45,461,051
Subtotal	32,866,984,316	26,997,541,173
Letters of credit issued	441,660,224	859,343,478
Letters of guarantee issued	1,069,234,917	547,812,841
Bank acceptances	265,150,525	111,187,310
Irrevocable loan commitment	702,666,763	2,658,121,804
Subtotal	2,478,712,429	4,176,465,433
Total	35,345,696,745	31,174,006,606

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 81% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2007: 86 %).

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

E Placement with other banks

	31 December 2008	31 December 2007
Neither past due nor impaired	200,946,250	315,710,380
Total	200,946,250	315,710,380
Less:allowance for impairment loses	-	-
Placement with other banks, net	200,946,250	315,710,380

F Loans and advances

	31 December 2008	31 December 2007
Neither past due nor impaired	26,081,320,740	22,674,958,006
Past due but not impaired	386,718,021	791,067,628
Impaired	558,148,288	143,622,281
Total	27,026,187,049	23,609,647,915
Less:allowance for impairment losses	(474,228,863)	(294,902,483)
Net	26,551,958,186	23,314,745,432

The total allowance for impairment of loans and advances amounted to Rmb 474 million (31 December 2007: Rmb 295 million) of which Rmb 248 million (31 December 2007: Rmb 91 million) represents the individually assessed impairment allowance and the remaining amount of Rmb 226 million (31 December 2007: Rmb 204 million) represents the collectively assessed impairment allowance.

F.1 *Loans and advances neither past due or impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the five rating classification system adopted by the Bank.

	Corporate loans	Retail loans	Total
31 December 2008			
Pass	23,316,940,365	2,499,604,200	25,816,544,565
Special mention	261,895,368	2,880,807	264,776,175
	23,578,835,733	2,502,485,007	26,081,320,740
31 December 2007			
Pass	21,475,443,665	1,182,084,376	22,657,528,041
Special mention	17,429,965	-	17,429,965
	21,492,873,630	1,182,084,376	22,674,958,006

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

F Loans and advances (continued)

F.2 *Loans and advances past due but not impaired*

At the inception of loans, the Bank will appoint independent valuers to determine the fair value of collateral. The Bank will review the latest value of collateral when there is objective evidence of impairment of loan.

The breakdown by overdue periods is as follows:

	Past due up to 30 days	Past due 30 - 60 days	Past due 60-90 days	Past due over 90 days	Total
31 December 2008					
Corporate loans	198,599,587	46,893,683	109,811,995	10,388,857	365,694,122
Retail loans	18,156,665	2,867,234	-	-	21,023,899
Total	216,756,252	49,760,917	109,811,995	10,388,857	386,718,021
31 December 2007					
Corporate loans	563,939,436	107,853,938	25,912,215	45,565,988	743,271,577
Retail loans	42,512,946	5,283,105	-	-	47,796,051
Total	606,452,382	113,137,043	25,912,215	45,565,988	791,067,628

As of 31 December 2008, the aggregate fair value of collateral held to support the above corporate loans amounted to Rmb 884 million and that of retail loans amounted to Rmb 29 million (31 December 2007: Rmb 1,567million and Rmb 49 million).

F.3 *Loans and advances individually impaired*

	31 December 2008	**31 December 2007**
Corporate loans	556,585,921	143,622,281
Retail loans	1,562,367	-
	558,148,288	143,622,281

As of 31 December 2008, the aggregate fair value of collateral held to support the above corporate loans amounted to Rmb 376 million and that of retail loans amounted to Rmb 2.4 million (31 December 2007: Rmb 53 million and nil).

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

F Loans and advances (continued)

(3) *Loans and advances individually impaired (continued)*

The Bank performed specific assessment for above impaired loans and established impairment allowance of Rmb 248 million (31 December 2007: Rmb 91million) after considering the value of collateral.

At the end of 2008, mortgage loans accounted for approximately 49% (31 December 2007: 55%) of the total retail loans. The Bank strictly follows the mortgage loan regulations issued by the PBOC and the CBRC, under which the loan principal should not exceed 70% of the value of residential properties. The Bank adopts the five rating classification system to assess the credit quality of the portfolio of retail loans and advances taking account of factors such as percentage of value of collateral to loan balance, overdue days, repayments ability and willingness of borrower to repay etc.

(4) *Loans and advances renegotiated*

Renegotiated loans represent the loans that original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As of 31 December, 2008, the renegotiated loans held by the Bank amounted to Rmb 4.4 million (31 December 2007: Rmb 6.5million).

G Investment securities

The tables below analyse the Bank's investment securities by issuer:

Rmb securities	**Trading assets**
31 December 2008	
Treasury bonds	32,760,119
PBOC notes	711,306,647
	744,066,766

	Trading assets
31 December 2007	
PBOC notes	968,361,812

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is separately managed for the Bank's trading portfolio and non-trading portfolio.

(i) Trading market risk

Trading market risk arises from the impact on trading positions of changes in foreign exchange rates and interest rate yields. It also includes the impact from changes in the correlations and volatilities of the above risk factors.

The Bank manages trading market risk in the course of structuring and packaging products for investors and other clients, as well as to benefit from market opportunities.

The Bank's policies and processes for managing trading market risk are approved by senior management and comprise the following elements:
- trading book policy and 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 Bank's trading market risk appetite by the Board Audit Committee 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 Management Committee ('MC') serves as the executive forum for overseeing various aspects of market risk taking including framework, limit management, policies, processes, methodologies and systems.

The principal market risk appetite measures for trading market risk are Value-at-Risk ('VaR') and stress loss. This is complemented at the level of risk-taking units by more granular risk and loss limits such as risk sensitivity-based limits, and management action triggers to measure and control trading exposures.

The Bank'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 Bank's trading market risk. The Bank computes VaR (in Singaporean Dollars 'SG$') daily. VaR is back-tested against the profit or loss of the trading book in line with policy in order to monitor its predictive power.

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.

The following table shows the year end, average, highest and lowest daily VaR for the trading market risk:

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Market risk (continued)

(i) Trading market risk (continued)

Bank Equivalent Rmb in million	As at 31 December 2008	1 January 2008 to 31 December 2008 Average	Highest	Lowest
Total	4.57	5.23	10.94	1.90

	As at 31 December 2007	26 May 2007 to 31 December 2007 Average	Highest	Lowest
Total	3.38	2.88	7.22	1.31

(ii) Non-trading market risk

Non-trading market risk arises from changes in foreign exchange rates and interest rate. Non-trading market risk arises in the course of (a) the Bank's management of funds arising from banking intermediation and (b) the Bank's banking business; specifically, from mismatches in the interest rate profile of assets and liabilities, from the effect of exchange rate movements on the Bank's earnings and capital accounts.

To optimise its income and balance sheet management, the Bank deploys funds in the interbank market. Derivatives may be used to hedge non-trading market risk. The market risks arising in the course of managing surplus funds are monitored using risk sensitivity measures.

Board Audit Committee and Senior Management Committees oversee non-trading market risk and allocate core limits to risk taking units. The China Asset and Liability Committee ('ALCO') is responsible for managing the risks, including the setting of operational limits and guidelines to refine risk management.

A Currency risk

Non trading foreign exchange exposure covers the foreign exchange risk arising from foreign currency earnings. Foreign currency loans in fundable currencies are generally funded in the same foreign currencies. However, positions arising from currencies which have high hedging costs or which are illiquid or controlled, will be reviewed by ALCO and may be managed with alternative strategies or left unhedged. This non-trading foreign exchange risk is monitored using foreign exchange net open position reports.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the end of each reporting period. Included in the table are the Bank's assets and liabilities at carrying amounts in Rmb, categorized by the original currency.

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Market risk (continued)

(ii) Non-trading market risk (continued)

A Currency Risk (continued)

31 December 2008	RMB	USD	HKD	Other currencies	Total
Cash and deposits with the central bank	3,809,657,636	169,113,757	29,858,199	262,777	4,008,892,369
Deposits with other banks	852,802,741	3,548,679,150	95,729,094	117,032,590	4,614,243,575
Placement with other banks	200,000,000	-	-	946,250	200,946,250
Trading assets	744,066,766	-	-	-	744,066,766
Derivative assets	132,593,603	5,445,545	248,921,781	17,966,392	404,927,321
Interest receivables	126,035,185	117,648,388	5,110,355	7,558,004	256,351,932
Loans and advances	17,038,499,035	6,941,164,894	2,312,629,962	259,664,295	26,551,958,186
Fixed assets	26,089,432	-	-	-	26,089,432
Long-term prepaid expenses	78,913,994	-	-	-	78,913,994
Deferred income tax assets	83,329,913	-	-	-	83,329,913
Other assets	56,406,068	26,898,965	18,663,063	12,685,629	114,653,725
Total assets	23,148,394,373	10,808,950,699	2,710,912,454	416,115,937	37,084,373,463
Liabilities					
Due to other banks and financial institutions	1,548,569,210	302,543,350	41,230,079	1,521	1,892,344,160
Placements from other banks	2,307,757,057	7,967,061,098	1,000,466,153	220,827,250	11,496,111,558
Financial liabilities at fair value through profit or loss	-	51,013,114	-	-	51,013,114
Derivative liabilities	271,359,769	10,190,393	47,356,299	29,749,879	358,656,340
Due to customers	13,235,980,908	4,716,752,687	277,381,397	101,769,058	18,331,884,050
Payroll and welfare payable	38,467,795	-	-	-	38,467,795
Taxes payable	74,640,020	216,038	1,573,487	5,153,322	81,582,867
Interest payable	149,749,418	50,765,944	2,371,679	2,147,846	205,034,887
Other liabilities	189,193,086	9,359,548	12,067,764	5,705,620	216,326,018
Total liabilities	17,815,717,263	13,107,902,172	1,382,446,858	365,354,496	32,671,420,789
Net on-balance sheet position	5,332,677,110	(2,298,951,473)	1,328,465,596	50,761,441	4,412,952,674
Financial guarantees and credit related commitments	4,185,283,297	3,660,549,262	352,155,148	272,534,499	8,470,522,206

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Market risk (continued)

(ii) Non-trading market risk (continued)

A Currency Risk (continued)

31 December 2007	RMB	USD	HKD	Other currencies	Total
Assets					
Cash and deposits with the central bank	2,958,083,940	143,225,181	31,860,047	203,931	3,133,373,099
Deposits with other banks	171,275,141	1,668,175,211	42,337,973	47,057,630	1,928,845,955
Placement with other banks	-	315,710,380	-	-	315,710,380
Trading assets	968,361,812	-	-	-	968,361,812
Derivative assets	194,016,023	34,089,260	2,500,215	2,171,365	232,776,863
Interest receivables	100,733,735	80,335,029	9,643,841	927,075	191,639,680
Loans and advances	13,186,582,702	7,553,849,789	2,443,085,112	131,227,829	23,314,745,432
Fixed assets	13,102,644	-	-	-	13,102,644
Long-term prepaid expenses	46,052,703	-	-	-	46,052,703
Deferred income tax assets	82,206,774	-	-	-	82,206,774
Other assets	25,102,098	32,971,762	594,021	494,487	59,162,368
Total assets	17,745,517,572	9,828,356,612	2,530,021,209	182,082,317	30,285,977,710
Liabilities					
Due to other banks and financial institutions	1,030,364,295	416,978,852	42,245,646	1,216,700	1,490,805,493
Placements from other banks	3,145,000,000	7,261,943,053	1,816,169,327	128,449,935	12,351,562,315
Financial liabilities at fair value through profit or loss	-	373,082,421	-	-	373,082,421
Derivative liabilities	1,880,709	231,406,566	18,339,221	527,288	252,153,784
Due to customers	8,304,163,260	2,278,600,887	282,725,782	68,320,016	10,933,809,945
Payroll and welfare payable	46,144,351	-	3,986,672	-	50,131,023
Taxes payable	65,507,238	-	-	-	65,507,238
Interest payable	76,608,517	97,617,110	5,862,020	511,104	180,598,751
Other liabilities	459,937,133	8,767,073	14,135,353	7,412,984	490,252,543
Total liabilities	13,129,605,503	10,668,395,962	2,183,464,021	206,438,027	26,187,903,513
Net on-balance sheet position	4,615,912,069	(840,039,350)	346,557,188	(24,355,710)	4,098,074,197
Financial guarantees and credit related commitments	2,522,882,411	1,720,482,715	419,639,550	289,759,256	4,952,763,932

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk

The Bank distinguishes two major sources of non-trading interest rate risk (a) arising from the deployment of funds in interbank market activities and (b) from mismatches in the interest rate profile of assets and liabilities. The principal market risk measure for the former source of non-trading interest rate risk are risk sensitivity-based limits. This risk is subject to limits established by China Management Committee. To monitor this risk, the Bank uses sensitivity analysis.

The estimated economic value sensitivity for major positions in RMB, HKD, EUR and USD from this source of non-trading interest rate risk as at 31 December 2008 assuming a 25 basis point increase in general interest rates for these currencies was an increase of Rmb 2.24 million.

Interest rate risk arising from mismatches in the interest rate profile of assets and liabilities 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 limits established by the Board Audit Committee. To monitor this risk, the Group uses sensitivity analysis.

The estimated economic value sensitivity for major positions in RMB and USD from this source of non-trading interest rate risk as at 31 December 2008 assuming a 25 basis point increase in general interest rates for these currencies was a decrease of Rmb 1.72 million.

The actual results may differ from the above sensitivity impact as the Bank manages factors such as changes in volumes, margins (for interest rate risk) and future business strategies, the impact of which is not captured in the sensitivity assessment.

The table below summarizes the Bank's exposures to interest rate risks. The table presents the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk (continued)

31 December 2008	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	3,792,374,718	-	-	-	216,517,651	4,008,892,369
Deposits with other banks	4,545,897,575	68,346,000	-	-	-	4,614,243,575
Placement with other banks	200,946,250	-	-	-	-	200,946,250
Trading assets	-	-	711,306,647	32,760,119	-	744,066,766
Derivative assets	-	-	-	-	404,927,321	404,927,321
Interest receivables	-	-	-	-	256,351,932	256,351,932
Loans and advances	16,902,614,476	4,036,481,634	5,276,123,101	63,658,020	273,080,955	26,551,958,186
Fixed assets	-	-	-	-	26,089,432	26,089,432
Long-term prepaid expenses	-	-	-	-	78,913,994	78,913,994
Deferred income tax assets	-	-	-	-	83,329,913	83,329,913
Other assets	-	-	-	-	114,653,725	114,653,725
Total assets	25,441,833,019	4,104,827,634	5,987,429,748	96,418,139	1,453,864,923	37,084,373,463
Liabilities						
Due to other banks and financial institutions	1,290,044,160	602,300,000	-	-	-	1,892,344,160
Placements from other banks	10,593,366,858	902,744,700	-	-	-	11,496,111,558
Financial liabilities at fair value through profit or loss	-	51,013,114	-	-	-	51,013,114
Derivative liabilities	-	-	-	-	358,656,340	358,656,340
Due to customers	12,337,587,340	3,451,111,617	2,543,185,093	-	-	18,331,884,050
Payroll and welfare payable	-	-	-	-	38,467,795	38,467,795
Taxes payable	-	-	-	-	81,582,867	81,582,867
Interest payable	-	-	-	-	205,034,887	205,034,887
Other liabilities	-	-	-	-	216,326,018	216,326,018
Total liabilities	24,220,998,358	5,007,169,431	2,543,185,093	-	900,067,907	32,671,420,789
Net interest re-pricing gap	1,220,834,661	(902,341,797)	3,444,244,655	96,418,139	553,797,016	4,412,952,674

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk (continued)

31 December 2007	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	2,954,697,356	-	-	-	178,675,743	3,133,373,099
Deposits with other banks	1,163,615,955	504,350,000	260,880,000	-	-	1,928,845,955
Placement with other banks	169,618,380	146,092,000	-	-	-	315,710,380
Trading assets	581,006,912	387,354,900	-	-	-	968,361,812
Derivative assets	-	-	-	-	232,776,863	232,776,863
Interest receivables	-	-	-	-	191,639,680	191,639,680
Loans and advances	13,675,276,632	5,061,469,212	4,341,917,949	109,356,276	126,725,363	23,314,745,432
Fixed assets	-	-	-	-	13,102,644	13,102,644
Long-term prepaid expenses	-	-	-	-	46,052,703	46,052,703
Deferred income tax assets	-	-	-	-	82,206,774	82,206,774
Other assets	-	-	-	-	59,162,368	59,162,368
Total assets	18,544,215,235	6,099,266,112	4,602,797,949	109,356,276	930,342,138	30,285,977,710
Liabilities						
Due to other banks and financial institutions	1,320,116,463	170,689,030	-	-	-	1,490,805,493
Placements from other banks	10,127,539,345	2,224,022,970	-	-	-	12,351,562,315
Financial liabilities at fair value through profit or loss	373,082,421	-	-	-	-	373,082,421
Derivative liabilities	-	-	-	-	252,153,784	252,153,784
Due to customers	7,159,541,798	1,896,883,500	1,685,515,387	191,869,260	-	10,933,809,945
Payroll and welfare payable	-	-	-	-	50,131,023	50,131,023
Taxes payable	-	-	-	-	65,507,238	65,507,238
Interest payable	-	-	-	-	180,598,751	180,598,751
Other liabilities	-	-	-	-	490,252,543	490,252,543
Total liabilities	18,980,280,027	4,291,595,500	1,685,515,387	191,869,260	1,038,643,339	26,187,903,513
Net interest re-pricing gap	(436,064,792)	1,807,670,612	2,917,282,562	(82,512,984)	(108,301,201)	4,098,074,197

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Liquidity risk

Liquidity risk is the potential earnings volatility arising from being unable to fund portfolio assets at reasonable rates over required maturities. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Bank seeks to manage its liquidity to meet its obligations under normal as well as adverse circumstances, and take advantage of arising lending opportunities.

The primary tool of monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across major functional currencies. This is tested under normal and adverse market scenario conditions.

The China Asset and Liability Committee is the primary parties responsible for liquidity management based on framework approved by the Board Audit Committee (‘BAC’).

Limits are set on maturity mismatches over books under normal scenarios and liquidity ratios. As part of its liquidity risk management, the Bank focuses on a number of components, including maintaining sufficient liquid assets, maintaining diversified sources of liquidity, preserving necessary funding capacity and contingency planning.

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Liquidity risk (continued)

A Non-derivative cash flows of financial assets and liabilities

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2008						
Financial Liabilities						
Due to other banks and financial institutions	498,102,102	806,097,248	614,623,991	-	-	1,918,823,341
Financial liabilities at fair value through profit or loss	-	-	51,271,591	-	-	51,271,591
Placements from other banks	5,524,188,413	3,041,112,853	925,320,609	2,161,480,274	-	11,652,102,149
Due to customers	9,157,741,009	3,248,247,901	3,554,936,753	2,549,739,669	-	18,510,665,332
Total financial liabilities	15,180,031,524	7,095,458,002	5,146,152,944	4,711,219,943	-	32,132,862,413
Financial Assets						
Cash and deposits with the PBOC	4,009,724,150	-	-	-	-	4,009,724,150
Deposits with other banks	3,799,152,825	772,891,249	70,258,605	-	-	4,642,302,679
Placement with other banks	101,179,048	102,498,288	-	-	-	203,677,336
Trading assets	-	30,771,000	736,000	716,748,000	38,150,000	786,405,000
Loans and advances	11,243,848,664	6,719,251,178	4,958,976,560	7,084,623,104	1,075,180,169	31,081,879,675
Total financial assets	19,153,904,687	7,625,411,715	5,029,971,165	7,801,371,104	1,113,330,169	40,723,988,840
Net cash flows	3,973,873,163	529,953,713	(116,181,779)	3,090,151,161	1,113,330,169	8,591,126,427

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Liquidity risk (continued)

B Derivative cash flows

(1) Derivatives settled on a net basis

The Bank's derivatives that will be settled on a net basis include interest rate swaps and other interest rate derivatives.

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2008						
Interest rate derivatives	2,655,705	532,309	1,797,660	10,994,683	-	15,980,357

(2) Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis include:
- Foreign exchange derivatives: currency forward

The table below analyses the Bank's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2008						
Foreign exchange derivatives						
− Outflow	11,439,180,480	5,626,135,815	18,057,657,032	441,146,979	-	35,564,120,306
− Inflow	11,448,026,420	5,600,963,092	18,005,475,141	439,338,567	-	35,493,803,220

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Liquidity risk (continued)

C Off-balance sheet items

31 December 2008	No later than 1 year	1-5 years	Over 5 years	Total
Letters of credit issued	441,660,224	-	-	441,660,224
Letters of guarantee issued	692,912,420	350,353,824	25,968,674	1,069,234,918
Acceptances	265,150,525	-	-	265,150,525
Operating lease commitments	77,544,428	83,751,989	-	161,296,417
Total	1,477,267,597	434,105,813	25,968,674	1,937,342,084

The 2007 comparatives figures regarding the liquidity risk are not supported by the Bank's current information system since the effective date of these disclosure requirements is 1 January 2008. The Bank's management does not believe that the absence of comparative information in this aspect would affect the overall presentation in the financial statements, as the parent company has sufficient management information to assess the liquidity position of the Bank.

42.5 Fair values of financial assets and liabilities

Fair values estimation is made in accordance with information of market and financial instruments in some specific point. Estimation is based on following methods and supposition:

(i) Cash and due from other banks and financial institutions, Deposit with the PBOC, Deposits with other banks, Due to other banks and financial institutions, Interest receivable, Interest payable, Other assets and Other liabilities

Given that maturities of these financial assets and liabilities are either short-term or re-priced more than once every year, the carrying amount approximates the fair value.

(ii) Loans and advances

Because the Rmb loan interest rates follows the movement of PBOC benchmark interest rates, and interest tares for loans denominated in foreign exchange are generally floating rates, fair value of loans is close to carrying value.

(iii) Customer deposits

The fair value of current, savings and money market accounts is the amount payable on demand at the reporting date. The carrying value of fixed interest-bearing deposits and placements approximates to its fair value because they are mainly payable in short term period.

(All amounts expressed in Rmb unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.6 Capital management

The Bank's capital management focuses on monitoring of the Capital Adequacy Ratio (CAR), aiming to comply with the regulatory requirements and support the business expansion.

The Bank calculates and discloses Capital Adequacy Ratio in accordance with "The Rules on Capital Adequacy Ratios of Commercial Banks" and other regulatory requirements issued by the CBRC.

The table below provides the analysis of regulatory capital and the ratios of the Bank for the year ended 31 December 2008.

	31 December 2008	31 December 2007
Tier 1 capital		
Paid-in capital	4,000,000,000	4,000,000,000
Capital surplus	22,571,343	22,571,343
Surplus reserve	39,038,133	7,550,285
Undistributed profits	351,343,198	67,952,569
Less: unrealized fair value gains of trading securities and derivatives (i)	(61,193,558)	-
Net Tier 1 Capital	4,351,759,116	4,098,074,197
Tier 2 capital		
Unrealized fair value gains of trading securities and derivatives (i)	61,193,558	-
Net Tier 2 capital	61,193,558	-
Net regulatory capital	4,412,952,674	4,098,074,197
Total risk-weighted assets	25,275,387,646	23,614,851,000
Core capital adequacy ratio	17.22%	17.35%
Capital adequacy ratio	17.46%	17.35%

(i) In accordance with "Notice issued by CBRC regarding calculation of Capital Adequacy Ratios for Banks adopting New CAS" (Yin Jian Fa [2007] No. 82), unrealised fair value gains from trading financial instruments should be excluded from tier 1 capital base, after deducting the impact of corporate income tax, and included in tier 2 capital base instead.

43 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.