DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2021

[English translation for reference only. Should there be any Inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

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[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2022) No.20053

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

Opinion

What we have audited

We have audited the accompanying financial statements of DBS Bank (China) Limited (hereinafter "DBS Bank"), which comprise:

- the balance sheet as at 31 December 2021;
- the income statement for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in owners' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DBS Bank as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of DBS Bank in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code") and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of DBS Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing DBS Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate DBS Bank or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing DBS Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on DBS Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause DBS Bank to cease to continue as a going concern.

- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA	Michael Hu
Shanghai, the People's Republic of China 11 February 2022	Signing CPA	David Wang

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2021
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2021	31 December 2020
Cash and deposits with central bank	8	11,952,301,337	10,628,594,877
Deposits with other banks	9	1,463,970,306	3,521,899,109
Placements with financial institutions	10	35,910,524,739	26,585,606,504
Derivative assets	11	7,317,006,782	15,570,871,048
Financial assets purchased under resale agreements	12	1,534,435,900	5,595,565,817
Loans and advances to customers	13	48,560,281,490	41,445,002,757
Financial investments:	14		
- Trading assets		12,169,677,944	9,685,955,361
- Debt instruments	15	7,669,589,366	5,700,539,827
- Other debt instruments	16	10,745,442,556	11,963,016,295
Fixed assets	17	41,185,564	42,679,272
Intangible assets	18	30,730,479	16,705,227
Deferred income tax assets	19	625,349,769	610,629,162
Other assets	20	1,910,178,146	3,101,328,229
TOTAL ASSETS		139,930,674,378	134,468,393,485
LIABILITIES			
Deposits from other banks and financial institutions	21	17,893,091,023	14,979,074,194
Borrowing from other banks	22	11,874,607,358	18,015,547,733
Derivative liabilities	11	7,286,003,810	16,000,963,644
Financial assets sold under repurchase agreements	23	5,773,509,626	4,321,830,549
Due to customers	24	72,069,073,567	64,400,544,762
Payroll and welfare payable	25	207,884,478	166,492,364
Taxes payable	26	126,572,763	201,715,130
Provision	27	10,177,360	120,177,537
Debt securities issued	28	9,846,489,013	3,449,383,898
Other liabilities	29	2,080,898,990	836,262,839
TOTAL LIABILITIES		127,168,307,988	122,491,992,650
OWNER'S EQUITY			
Paid-in capital	30	8,000,000,000	8,000,000,000
Capital surplus	31	33,454,727	33,462,006
Other comprehensive income	32	52,095,967	1,244,218
Surplus reserve	33	496,723,476	423,211,368
General risk reserve	34	1,482,900,000	1,450,400,000
Undistributed profits	35	2,697,192,220	2,068,083,243
TOTAL OWNER'S EQUITY		12,762,366,390	11,976,400,835
TOTAL LIABILITIES AND OWNER'S EQUITY		139,930,674,378	134,468,393,485

The financial statements were authorized for issue by Board of Directors.

CEO: Neil Ge   CFO: Sandra Ye   DBS BANK (CHINA) LIMITED

Date: 28 January 2022

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2021	2020
Interest income	36	3,525,753,854	3,576,462,715
Interest expense	36	(1,775,271,975)	(1,790,821,679)
Net interest income		1,750,481,879	1,785,641,036
Fee and commission income	37	398,947,082	351,162,715
Fee and commission expense	37	(73,208,176)	(66,350,691)
Net fee and commission income		325,738,906	284,812,024
Investment income	38	506,635,653	405,716,687
Fair value gains	39	89,360,931	2,914,210
Exchange gains	40	236,956,357	200,018,144
Other business income	41	24,100,586	20,482,033
Losses on disposal of assets		(70,917)	(2,994,586)
Other income	42	8,788,977	8,702,109
Operating income		2,941,992,372	2,705,291,657
Tax and levies		(21,075,142)	(21,384,839)
General and administrative expenses	43	(1,814,493,602)	(1,687,470,647)
Credit impairment losses	44	(212,956,113)	(826,316,387)
Other business expense	41	(11,994,458)	(8,357,363)
Operating expense		(2,060,519,315)	(2,543,529,236)
Operating profit		881,473,057	161,762,421
Non-operating income		6,066,893	5,986,354
Non-operating expense		(507,732)	(11,841,755)
Total profit		887,032,218	155,907,020
Corporate Income tax	45	(151,911,133)	19,160,585
Net profit		735,121,085	175,067,605
Other comprehensive income, net of tax	32	50,851,749	(50,417,102)
Other comprehensive income which will be reclassified to income statement subsequently			
- Gains or losses arising from changes in fair value of other debt instruments		53,879,275	(50,606,560)
- Credit impairment losses movement of other debt instruments		(155,957)	872,706
- Cash flow hedge reserve		(2,871,569)	(683,248)
Total comprehensive income		785,972,834	124,650,503

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

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2021	2020
1 Cash flows from operating activities			
Net decrease in deposits with central bank and other banks		3,262,589,394	-
Net increase in borrowing from other banks		-	1,075,462,325
Net increase in due to customers and deposits from other banks and financial institutions		10,632,429,678	5,852,027,829
Net increase in financial assets sold under repurchase agreements		1,448,899,999	1,341,000,001
Net decrease in loans and advances to customers		-	4,504,401,149
Net decrease in placements with financial institutions		181,824,346	-
Net decrease in financial assets purchased under resale agreements		3,947,736,043	-
Interest, fee and commission received		3,272,701,363	3,660,664,697
Cash received relating to other operating activities		2,897,649,286	1,092,115,048
Sub-total of cash inflow		25,643,830,109	17,525,671,049
Net increase in deposits with central bank and other banks		-	(1,808,784,747)
Net increase in loans and advances to customers		(7,414,901,472)	-
Net decrease in borrowing from other banks		(6,175,483,593)	-
Net increase in placements with financial institutions		-	(4,992,100,658)
Net increase in trading assets		(2,086,623,146)	(2,354,782,217)
Net increase in financial assets purchased under resale agreements		-	(4,787,991,627)
Interest, fee and commission paid		(1,611,908,460)	(1,657,547,443)
Cash paid to employees		(1,260,778,856)	(1,157,818,658)
Payment of taxes		(441,350,708)	(315,446,363)
Cash paid relating to other operating activities		(353,155,285)	(1,895,482,422)
Sub-total of cash outflow		(19,344,201,520)	(18,969,954,135)
Net cash generated from/(used in) operating activities	46	6,299,628,589	(1,444,283,086)

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

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2021	2020
2 Cash flows from investing activities			
Cash received from investments		9,125,125,445	2,411,747,400
Interest received from debt instruments and other debt instruments		544,124,628	437,144,232
Sub-total of cash inflow		9,669,250,073	2,848,891,632
Purchase of financial investments		(9,828,177,152)	(8,368,027,010)
Cash paid for purchase of fixed assets and intangible assets		(38,426,239)	(27,307,579)
Sub-total of cash outflow		(9,866,603,391)	(8,395,334,589)
Net cash used in investing activities		(197,353,318)	(5,546,442,957)
3 Cash flows from financing activities			
Cash received from debt security issued		17,820,000,000	2,940,000,000
Sub-total of cash inflow		17,820,000,000	2,940,000,000
Cash payments for debt security issued		(11,433,323,652)	(6,501,651,539)
Cash payments for bonds interest expenses		(230,443,379)	(284,782,671)
Cash payments for lease liabilities		(129,032,480)	(158,977,704)
Sub-total of cash outflow		(11,792,799,511)	(6,945,411,914)
Net cash flows generated from/(used in) financing activities		6,027,200,489	(4,005,411,914)
4 Effect of foreign exchange rate changes on cash and cash equivalents		(233,947,086)	(349,105,593)
5 Net increase/(decrease) in cash and cash quivalents		11,895,528,674	(11,345,243,550)
Add: Cash and cash equivalents at the beginning of year		6,510,178,803	17,855,422,353
6 Cash and cash equivalents at the end of year	46	18,405,707,477	6,510,178,803

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

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Paid-in capital Note 30	Capital surplus Note 31	Other comprehensive income Note 32	Surplus reserve Note 33	General risk reserve Note 34	Undistributed profits Note 35	Total owners' equity
Balance at 31 December 2020	8,000,000,000	33,462,006	1,244,218	423,211,368	1,450,400,000	2,068,083,243	11,976,400,835
Comprehensive income							
Net profit	-	-	-	-	-	735,121,085	735,121,085
Other comprehensive income	-	-	50,851,749	-	-	-	50,851,749
Total comprehensive income	-	-	50,851,749	-	-	735,121,085	785,972,834
Others	-	(7,279)	-	-	-	-	(7,279)
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	32,500,000	(32,500,000)	-
Transfer to surplus reserve	-	-	-	73,512,108	-	(73,512,108)	-
Balance at 31 December 2021	8,000,000,000	33,454,727	52,095,967	496,723,476	1,482,900,000	2,697,192,220	12,762,366,390
Balance at 31 December 2019	8,000,000,000	30,052,787	51,661,320	405,704,608	1,297,600,000	2,063,322,398	11,848,341,113
Comprehensive income							
Net profit	-	-	-	-	-	175,067,605	175,067,605
Other comprehensive income	-	-	(50,417,102)	-	-	-	(50,417,102)
Total comprehensive income	-	-	(50,417,102)	-	-	175,067,605	124,650,503
Others	-	3,409,219	-	-	-	-	3,409,219
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	152,800,000	(152,800,000)	-
Transfer to surplus reserve	-	-	-	17,506,760	-	(17,506,760)	-
Balance at 31 December 2020	8,000,000,000	33,462,006	1,244,218	423,211,368	1,450,400,000	2,068,083,243	11,976,400,835

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

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 former China Banking Regulatory Commission (“the former 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 Retained Branch was closed on 30 December 2015.

The Bank obtained its finance approval license No.00000042 from the former CBRC and obtained its business license (Shi Ju) Qi Du Hu Zong Zi No.044272 from the Shanghai’s State Administration of Industry and Commerce on 22 May 2007 and 24 May 2007, respectively. The initial registered/paid-up capital of the Bank was RMB 4 billion. Pursuant to the approval from the former CBRC on 21 August 2012 (Yin Jian Fu (2012) No.429), the Bank increased its registered paid-up capital to RMB 6.3 billion. The Bank obtained a new business license No.1116082 from the Shanghai’s State Administration of Industry and Commerce on 24 September 2012. Pursuant to the approval from the former CBRC on 9 September 2016 (Hu Yin Jian Fu (2016) No.382), the Bank increased its registered paid-up capital to RMB 8.0 billion. The Bank obtained a new business license No.00000002201609290009 from the Shanghai’s State Administration of Industry and Commerce on 29 September 2016.

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.

DBS Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-branch obtained its finance approval license from the former CBRC, Shanghai Bureau (HYJBZ [2014] No.3) and obtained its business license No.310000500539013 from the Shanghai’s State Administration of Industry and Commerce on 3 January 2014 and 6 January 2014, respectively. Currently, the Bank has twelve branches and twenty-one sub-branches located in Shanghai, Beijing, Shenzhen, Suzhou, Guangzhou, Tianjin, Nanning, Dongguan, Hangzhou, Chongqing, Qingdao and Xi’an of the PRC.

2 BASIS OF PREPARATION

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard*, and other accounting standards and relevant regulations issued by the Ministry of Finance of the PRC (“MOF”) on 15 February 2006 and in subsequent periods (hereafter collectively referred to as “the Accounting Standard for Business Enterprises” or “CAS”).

The financial statements are prepared on a going concern basis.

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2021 are in compliance with the Accounting Standards for Business Enterprises and truly and completely present the financial position of the Bank as of 31 December 2021 and of the financial performance, cash flows and other information for the year then ended.

4 CRITICAL CHANGES IN ACCOUNTING POLICIES

The *Interpretation No. 14 of the Accounting Standards for Business Enterprises* (Cai Kuai [2021] No.1) was issued by MOF on 1 January 2021, which clarifies the accounting treatment for changes in the basis for determining the contractual cash flows of financial assets or financial liabilities caused by Interest Rate Benchmark Reform (“IBOR Reform”) and the related disclosure requirements.

These changes include addition of a fixed spread to compensate for the basis difference between an IBOR and its Alternative Reference Rate (ARR), changes to the reset period, reset dates or the number of days between coupon payment dates necessary to implement an IBOR Reform and the addition of a fallback provision to the contractual terms of a financial instrument to allow any of the above changes to be made. The adoption of this interpretation does not have a material effect on the Bank’s financial statements.

5 PRINCIPAL ACCOUNTING POLICIES

A Accounting period

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

B Functional currency and presentation currency

The Bank’s functional currency is Renminbi (“RMB”) and these financial statements are presented in RMB. The Bank determines functional currency on the basis of the currency in which major income and costs are denominated and settled.

C Foreign currency translation

Transactions in foreign currencies are measured using the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the spot exchange rate as at the balance sheet date. Foreign exchange differences arising from this translation are recognised in the income statement.

Non-monetary assets and liabilities measured at cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Contributions to paid-in capital made in foreign currencies are translated into the RMB denominated paid-in capital account at the stipulated exchange rate at the contribution date.

D Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with maturities of three months or less from the date of purchase under balances with central banks, due from banks and other financial institutions.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities

(a) Initial recognition and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

(b) Measurement methods of financial assets and financial liabilities

(i) The method of determining fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Bank uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Bank uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

(ii) Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(b) Measurement methods of financial assets and financial liabilities (continued)

(iii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(c) Financial assets

(i) Classification and subsequent measurement

The classification requirements for equity and debt instruments are described below:

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

(1) The Bank's business model for managing the asset

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at fair value through profit and loss("FVTPL"). Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

(2) The cash flow characteristics of the asset

Solely payments of principal and interest ('SPPI'): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

(ii) Measurement categories of debt instruments

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

<u>Amortised cost:</u>

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and the interest income from these financial assets is included in "Interest income" using the effective interest rate method.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(ii) Measurement categories of debt instruments (continued)

Fair value through other comprehensive income (FVOCI):

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated at FVTPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains arising from investment'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss(FVTPL):

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the income statement within 'Net gains arising from trading activities' or 'Fair value gains/losses' in the period in which it arises.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(iii) Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgements and estimates, please refer to note 51.2(h).

The Bank presents the ECL of loan commitments and financial guarantee contracts in Provisions.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(iv) Derecognition other than on a modification

Financial assets or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

(v) Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply withthe Group’s procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(d) Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(d) Financial liabilities (continued)

(ii) Derecognition

Financial liabilities are derecognised when they are fully or patially extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The gains and losses attributable to derecognition are presented in profit or loss.

(e) Offsetting

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

F Derivative instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Bank assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

(1) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or

(2) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

5 PRINCIPAL ACCOUNTING POLICIES (continued)

F Derivative instruments and hedge accounting(continued)

The Bank documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

G Financial assets purchased under resale agreements and sold under repurchase agreements

Financial assets purchased under resale agreements and sold under repurchase agreements are recorded according to the actual payments or receipts when the business occurs and reflected in the balance sheet. The purchased underlying assets under repurchase agreements are not recognized, but are registered off-balance sheet for future reference, and the underlying assets sold under repurchase agreements are still reflected in the balance sheet.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

H Fixed assets

(a) Initial recognition and measurement

Fixed assets comprise 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.

(b) Depreciation

Depreciation is calculated using 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
Office equipments and furnitures	5-10 years	0%	10%-20%
Computers and other electronic equipments	3-5 years	0%	33.33%-50%

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

(c) Derecognition

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.

I Intangible assets

Intangible assets include software contracts, which are measured at cost and amortized equally over their useful life of 3-5 years.

Intangible assets are initially measured at cost. Intangible assets with limited useful lives are amortized on a straight-line basis according to their original values over their expected useful lives since they are available for use.

At the end of the year, the useful life and amortization method of the intangible assets with limited useful life shall be reviewed and adjusted if necessary.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

J Impairment of non-financial assets

On the balance sheet date, the Bank determines whether the following assets have signs of impairment based on internal and external information, including:

- Fixed assets
- Intangible assets
- Right-of-use assets

The Bank conducts impairment tests on assets with signs of impairment and estimates the recoverable amount of the assets.

The recoverable amount is the higher of the asset’s fair value less cost to sell and the asset’s present value of future cash flows. The estimated future cash flows are expected to arise from continuing operations and discounted to their present value using a pre tax discount rate that reflect current market assessment.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

Provision for impairment is determined on individual basis. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

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

K Lease

Lease refers to a contract in which the lessor transfers the right of use of the assets to the lessee for a certain period to obtain the consideration.

As Lessee

The Bank recognises the Right-of-use asset on the commencement date of the lease term and recognises the lease liability at the present value of the lease payments that have not been paid. The lease payments include fixed payments and payments to be made in the event that it is reasonably determined that the purchase option will be exercised or the lease option is terminated. The variable rent determined based on a certain percentage of sales is not included in the lease payments and is recognized in profit or loss when incurred.

The Bank’s Right-of-use assets include leased office premises and data centres.

The Right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments paid on or before the lease beginning date, the initial direct costs, etc. and deducts the lease incentives received. Right-of-use assets are initially measured at cost and subsequently depreciated using the straight-line method from the lease commencement date to the end of the lease term. Extension options are included in the lease term if the lease is reasonably certain to be extended. The Right-of-use assets are periodically reduced by impairment losses, if any and adjusted for the remeasurements of the lease liabilities described above.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

K Lease (continued)

As Lessee (continued)

For short-term leases with a lease term of no more than 12 months and low-value-asset leases with a lower value of individual assets, the Bank chooses not to recognise the Right-of-use assets and lease liabilities and the relevant rental expenses are based on the straight-line method for each period of the other term. It is included in the current profit and loss or related asset cost.

A change in a lease is accounted for as a separate lease by the Bank when it meets the following conditions: (1) The change in the lease extends the scope of the lease by increasing one or more Right-of-use assets; (2) The increased consideration shall be equivalent to the amount of the separate price of the extended portion of the lease as adjusted for the circumstances of the contract.

L Provisions

Provisions are recognised when the Bank has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

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 rate method, except for:

(i) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(ii) Financial assets that are not ‘POCI’ but have subsequently become credit-impaired (or ‘stage 3’), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

5 PRINCIPAL ACCOUNTING POLICIES (continued)

N Fee and commission income/expense

Revenue is recognised when a performance obligation is satisfied, which could either be at a point in time or when the obligation is satisfied over time.

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

- Transaction-based fee and commission income is recognised on the completion of the transaction. Such fees include underwriting fees, brokerage fees, bancassurance sales commission and variable service fees and fees related to the completion of corporate finance transactions.

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

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

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

O Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

On the balance sheet date, the current income tax liabilities (or assets) formed in the current and previous periods should be measured by the expected amount of income tax payable (or returned) calculated in accordance with the provisions of the tax law.

(b) Deferred income tax

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 at 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

O Income tax (continued)

(b) Deferred income tax (continued)

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 investments at fair value through other comprehensive income 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 Employee benefits

Employee benefits mainly include short-term employee benefits, post-employment benefits and share plan incurred in exchange for service rendered by employees or various forms of rewards or compensation due to severance of labour relation.

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, medical insurance, work injury insurance, maternity insurance, housing funds and employee education costs, short-term paid absences. The employee benefits are recognised in the accounting period in which the service has been rendered by the employees and as costs of assets or expenses to whichever the employee service is attributable. Employee benefits which are non-monetary benefits shall be measured at fair value.

(b) Post-employment benefits

The Bank classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Bank pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Bank's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

The Bank's employees participate in the defined basic pension insurance plan set up and administered by local labour and social protection authorities. Basic pensions are provided for monthly according to stipulated bases and proportions to local labour and social security institutions. When employees retire, local labour and social security institutions have a duty to pay the basic pension insurance to them. The amounts payable are recognised as liabilities based on the above provisions in the accounting period in which the service has been rendered by the employees and as costs of assets or expenses to whichever the employee service is attributable.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

P Employee benefits (continued)

(c) Share based payment

The employees of the Bank enjoy the equity-settled stock incentive plan implemented by the DBS Group Holding Ltd. ("DBS Group"), including DBSH Share Plan and DBSH Employee Share Purchase Plan, under which the Bank provides shares issued by DBS Group to all the employees for exchange of services they provided. Such shares provided are recognized in the Bank's income statement according to the fair value of the equity instruments at the grant date and amortized over the vesting period with a corresponding adjustment to the payable to DBS Group's account.

Q Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Bank from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Bank can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Bank for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss or deducted against related costs, expenses or losses directly in current period. The Bank applies the presentation method consistently to the similar government grants in the financial statements.

Government grants related to daily activities are included in operating profit, and government grants not related to daily activities are included in non-operating income and expenditure.

R Related Parties

The Bank controls, jointly controls, or has the significant influence over another party; or the other party controls, jointly controls, or has the significant influence over the Bank; or the Bank and the other party are both controlled and jointly controlled by one party are deemed to be related parties. Related parties can be individuals or corporations. The related parties of the Bank include but are not limited to:

5 PRINCIPAL ACCOUNTING POLICIES (continued)

R Related Parties (continued)

(a) The parent company of the Bank;
(b) Other enterprises controlled by the same parent company as the Bank;
(c) Key management personnel of the Bank and their close family members;
(d) Key management personnel of the Bank’s parent company and their close family members;
(e) Enterprises or individuals that are under the same control or common control of the Bank; and
(f) Other enterprises controlled, jointly controlled or exerted significant influence by key management personnel of the Bank or their close family members.

S Segment Reporting

The Bank identifies operating segments based on the internal organization structure, management requirement and internal reporting and then disclose segment information of reportable segment which is based on operating segment.

An operating segment is a component of the Bank: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions); (b) whose operating results are regularly reviewed by the Bank’s senior management to make decisions about resources to be allocated to the segment and assess its performance and (c) for which discrete financial information, including the financial position, the financial performance and cash flows, is available. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics and fulfil certain criteria.

The majority of the Bank’s business activities are conducted within Shanghai, Beijing, Guangzhou, Shenzhen, Suzhou, Hangzhou, Chongqing of the PRC.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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.

(1) Fair value of financial instruments

The fair value of financial instruments that is not quoted in active markets is determined by using valuation techniques. The valuation models (like cash flow discount model) are periodically evaluated and validated by the specialists with professional qualifications, who are independent of the designers of the models. 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.

For more information on the fair value of financial instruments, see Note 51.5.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(2) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.

Note 51.2(h) specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss.

(3) Income tax

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.

7 TAXATION

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

Tax	Tax rate	Tax base
Corporate income tax (a)	25%	Taxable income
Value added tax ("VAT") (b)	6%, 9%, 13%	Taxable value added amount

(a) Under the Corporate Income Tax Law of the PRC, the corporate income tax rate applicable to the Bank is 25% (2020: 25%).

(b) VAT payable is calculated using the taxable sales amount multiplied by the applicable VAT rate less deductible input VAT of the current period.

8 CASH AND DEPOSITS WITH CENTRAL BANK

	31 December 2021	31 December 2020
Cash	28,806,155	34,651,892
Statutory deposit reserve with central bank (a)	5,379,937,561	5,749,033,663
Excess deposit reserve with central bank	6,542,868,954	3,950,627,678
Foreign exchange risk reserve with central bank (b)	-	893,493,292
Interest receivable	2,721,111	2,878,798
Less: ECL allowance	(2,032,444)	(2,090,446)
Total	11,952,301,337	10,628,594,877

(a) According to the relevant provisions of the People's Bank of China ("PBOC"), the statutory deposit reserve is the deposit reserve paid by the Bank to the PBOC. Such mandatory reserves are not available for use by the Bank in its day-to-day operations. The deposit ratio on the balance sheet date is:

	31 December 2021	31 December 2020
Reserve rate for deposits denominated in RMB	8%	10.5%
Reserve rate for deposits denominated in foreign currencies	9%	5%

(b) Pursuant to the 'Circular on the strengthening the macro prudential management about forward FX sales and purchase' (Yin Fa [2015] 273), the Bank places the foreign exchange risk reserve with the PBOC.

Pursuant to the '*Circular on the Adjustment of Foreign Exchange Risk Reserve Policies'* (Yin Fa [2020] No. 237), the reserve rate of the Bank's foreign exchange risk reserve was adjusted to 0 effective from Oct 12, 2020. Qualified deals booked on Oct 9, 2020 and before are still applying the reserve rate of '*Circular on the Adjustment of Foreign Exchange Risk Reserve Policies'* (Yin Fa [2018] 190).

9 DEPOSITS WITH OTHER BANKS

	31 December 2021	31 December 2020
Deposits with other banks		
- Domestic	441,068,418	2,452,362,308
- Overseas	1,022,976,000	1,060,973,675
Subtotal	1,464,044,418	3,513,335,983
Add: Interest receivable	-	8,787,245
Less: ECL allowance	(74,112)	(224,119)
Total	1,463,970,306	3,521,899,109

(All amounts expressed in RMB unless otherwise stated)

10 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Placements with banks		
- Domestic	2,207,084,100	1,002,381,331
- Overseas	9,653,559,450	3,294,514,750
Subtotal	11,860,643,550	4,296,896,081
Placements with financial institutions		
- Domestic	23,732,615,449	22,119,762,564
Add: Interest receivable	333,298,715	208,147,063
Less: ECL allowance	(16,032,975)	(39,199,204)
Total	35,910,524,739	26,585,606,504

11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

11.1 DERIVATIVE INSTRUMENTS

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

31 December 2021		Fair value	
	Notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	16,913,564,776	43,538,411	(107,824,414)
Foreign exchange swap	198,543,472,480	2,144,655,061	(2,255,173,919)
Foreign exchange option	45,350,867,568	169,867,290	(107,025,621)
Cross-currency swap	27,126,531,071	571,306,740	(387,027,553)
Subtotal	287,934,435,895	2,929,367,502	(2,857,051,507)
Interest rate derivatives			
Interest rate swap	1,002,332,779,957	2,438,943,724	(2,524,352,198)
Interest rate cap and floor	2,360,825,917	341,663	(342,193)
Subtotal	1,004,693,605,874	2,439,285,387	(2,524,694,391)
Other derivatives			
Equity derivatives	13,526,736,109	1,657,018,941	(1,656,018,583)
Commodity derivatives	8,826,707,487	133,124,566	(133,108,921)
Credit derivatives	11,796,927,937	158,210,386	(115,130,408)
Subtotal	34,150,371,533	1,948,353,893	(1,904,257,912)
Total	1,326,778,413,302	7,317,006,782	(7,286,003,810)

(All amounts expressed in RMB unless otherwise stated)

11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

11.1 DERIVATIVE INSTRUMENTS (continued)

31 December 2020		Fair value	
	Notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	19,243,541,605	152,733,772	(128,914,452)
Foreign exchange swap	458,929,743,609	9,711,702,173	(10,504,068,995)
Foreign exchange option	92,225,939,230	581,909,993	(495,295,901)
Cross-currency swap	28,863,862,635	1,035,100,008	(608,138,561)
Subtotal	599,263,087,079	11,481,445,946	(11,736,417,909)
Interest rate derivatives			
Interest rate swap	496,724,365,327	3,279,397,239	(3,450,263,354)
Interest rate cap and floor	6,816,195,786	1,487,896	(1,562,904)
Subtotal	503,540,561,113	3,280,885,135	(3,451,826,258)
Other derivatives			
Equity derivatives	8,562,375,065	596,873,242	(596,539,773)
Commodity derivatives	3,643,896,574	137,386,594	(137,397,364)
Credit derivatives	8,361,404,282	74,280,131	(78,782,340)
Subtotal	20,567,675,921	808,539,967	(812,719,477)
Total	1,123,371,324,113	15,570,871,048	(16,000,963,644)

11.2 HEDGE ACCOUNTING

The Bank applies hedge accounting in two separate hedging strategies, as follows:

Interest rate risk on fixed rate financial assets and financial liabilities (fair value hedge)

The Bank holds long-term fixed rate financial assets and liabilities and therefore is exposed to changes in fair value due to movements in market rates. The Bank manages this risk exposure by entering into opposite interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The interest rate risk component is determined as the change in fair value of the long-term fixed rate financial assets and financial liabilities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

Foreign exchange risk on foreign currency debt (cash flow hedge)

The Bank obtains effective sources of funding from international markets. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange financial liabilities such as borrowing from banks in the foreign currency for financial liabilities in RMB. These instruments are entered into to match the maturity profile of estimated repayments of the Bank's debt instruments. This hedging strategy is applied to the portion of the exposure that is not naturally offset against matching asset positions held by the Bank in financial investments that are also denominated in foreign currencies.

(All amounts expressed in RMB unless otherwise stated)

11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

11.2 HEDGE ACCOUNTING (continued)

Foreign exchange risk on foreign currency debt (cash flow hedge) (continued)

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in cash flows of the instrument.

(a) Fair value hedge

As at 31 December 2021, derivative contracts designated as hedging instruments by the Bank are as follows:

	Notional amount	Fair Value Assets	Fair Value Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	153,763,609	-	(2,970,313)

As at 31 December 2020, derivative contracts designated as hedging instruments by the Bank are as follows:

	Notional amount	Fair Value Assets	Fair Value Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	167,633,609	-	(1,792,223)

The Bank uses interest rate swaps to hedge against changes in the fair value of loans and advances to customers.

Net gains / (losses) from fair value hedges are as follows:

	2021	**2020**
- Hedging instruments	(1,178,089)	(372,079)
- Hedged items	1,204,515	406,284
Net gains/(losses) from fair value hedges	26,426	34,205

(All amounts expressed in RMB unless otherwise stated)

11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

11.2 HEDGE ACCOUNTING (continued)

(b) Cash flow hedge

The Bank's cash flow hedges consist principally of currency swaps transacted to hedge highly probable forecast transactions expected to occur at various future dates against variability in exchange rates. The currency swaps have maturity dates that coincide within the expected occurrence of these transactions.

For the year ended 31 December 2021, the Bank's net losses arising from ineffective portion of the cash flow hedge with the amount of RMB 1.47 million were recognized in other comprehensive income, which was immaterial. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2021, as a result of the highly probable cash flows no longer being expected to occur.

12 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

Analyzed by collateral type:	**31 December 2021**	**31 December 2020**
At amortized cost		
Bond	1,237,405,476	5,595,857,245
Add: Interest receivable	1,031	118,940
Less: ECL allowance	-	(410,368)
Subtotal	1,237,406,507	5,595,565,817
At FVTPL		
Bond	297,029,393	-
Total	1,534,435,900	5,595,565,817

13 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2021	**31 December 2020**
Retail loans		
- Mortgage	3,373,007,048	4,118,831,720
- Consumer finance	1,877,138,034	30,000
- Others	279,943,510	366,626,757
Subtotal	5,530,088,592	4,485,488,477
Corporate Loans		
- Loans	32,383,289,730	28,601,209,856
- Trade finance	11,042,852,966	8,676,304,418
- Discounted bills and others	257,707,248	331,169,620
Subtotal	43,683,849,944	37,608,683,894
Add: Interest receivable	283,685,225	236,477,374
Total Loans and advances to customers carried at amortised cost	49,497,623,761	42,330,649,745
Less: ECL allowance	(937,342,271)	(885,646,988)
Net Loans and advances to customers	48,560,281,490	41,445,002,757

(All amounts expressed in RMB unless otherwise stated)

13 LOANS AND ADVANCES TO CUSTOMERS (continued)

(1) By industry:

	31 December 2021		31 December 2020	
	Balance	**%**	**Balance**	**%**
Retail loans	5,530,088,592	11%	4,485,488,477	11%
Finance	12,490,486,277	26%	7,928,971,595	19%
Real estate	8,107,995,380	16%	9,227,381,078	22%
Manufacturing	7,233,465,028	15%	5,643,763,594	13%
Wholesale and retail business	6,608,063,611	13%	7,650,039,811	18%
Transportation, storage and postal	4,142,439,489	8%	3,159,575,471	7%
Information transmission, software and IT servicesservices	3,178,942,763	6%	2,545,761,450	6%
Accommodation and catering	527,219,230	1%	269,076,002	1%
Agriculture,hunting,forestry and fishing	523,618,594	1%	216,603,229	1%
Production and supply of power, heat, gas and water	352,490,908	1%	603,206,426	1%
Others	519,128,664	1%	364,305,238	1%
Add: Interest receivable	283,685,225	1%	236,477,374	0%
Total	49,497,623,761	100%	42,330,649,745	100%

(2) By security type:

	31 December 2021	31 December 2020
Collateralized	15,791,857,721	6,300,717,373
Clean	14,957,372,398	8,295,965,865
Pledged	11,614,406,580	19,586,405,953
Guaranteed	6,850,301,837	7,911,083,180
Add: Interest receivable	283,685,225	236,477,374
Total	49,497,623,761	42,330,649,745

(3) Past due loans by security type:

	31 December 2021				
	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Collateralized	155,285,116	5,897,617	50,490,415	34,829,801	246,502,949
Clean	29,473,609	170,225,444	34,876,670	-	234,575,723
Pledged	-	1,851,372	-	-	1,851,372
Guaranteed	-	-	-	2,520,340	2,520,340
Total	184,758,725	177,974,433	85,367,085	37,350,141	485,450,384

(All amounts expressed in RMB unless otherwise stated)

13 LOANS AND ADVANCES TO CUSTOMERS (continued)

(3) Past due loans by security type: (continued)

	31 December 2020				
	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Collateralized	210,416,419	41,132,689	69,046,546	32,127,590	352,723,244
Clean	110,874,259	114,399,923	-	-	225,274,182
Pledged	-	-	-	4,452,398	4,452,398
Guaranteed	-	-	-	4,151,133	4,151,133
Total	321,290,678	155,532,612	69,046,546	40,731,121	586,600,957

14 TRADING ASSETS

Trading assets are measured at FVTPL.

	31 December 2021	31 December 2020
Banks and other financial institutions debt securities	5,652,547,978	3,412,735,570
Corporate debt securities	2,927,498,598	1,462,021,071
Government securities	2,556,367,394	3,423,604,323
Local government debt securities	270,455,903	93,982,433
Negotiable certificates of deposit	355,224,674	1,165,140,309
Asset backed securities	407,583,397	128,471,655
Total	12,169,677,944	9,685,955,361

As at 31 December 2021, trading assets amounting to RMB 6,210,000,000 were pledged as collateral under repurchase agreements with other banks (31 December 2020: RMB 4,250,000,000).

15 DEBT INSTRUMENTS

Debt instruments refer to debt instruments measured at amortised cost.

	31 December 2021	31 December 2020
Government securities	7,537,819,005	5,651,282,774
Asset backed securities	68,843,600	-
Add: Interest receivable	64,665,632	50,480,205
Less: ECL allowance	(1,738,871)	(1,223,152)
Total	7,669,589,366	5,700,539,827

(All amounts expressed in RMB unless otherwise stated)

16 OTHER DEBT INSTRUMENTS

Other debt instruments refer to debt instruments measured at FVOCI.

	31 December 2021	31 December 2020
Banks and other financial institutions debt securities	7,423,332,895	7,643,833,059
Government securities	2,582,226,676	2,487,810,901
Local government debt securities	559,723,773	635,647,485
Negotiable certificates of deposit	-	978,185,738
Add: Interest receivable	180,159,212	217,539,112
Total	10,745,442,556	11,963,016,295

As at 31 December 2021, the amount of other debt instruments pledged as collateral under repurchase agreements with other banks was nil (31 December 2020: RMB 560,000,000).

17 FIXED ASSETS

	Office equipments and furnitures	Computers and other electronic equipments	Total
Cost			
At 1 January 2021	99,157,033	126,362,814	225,519,847
Additions	1,484,293	14,128,562	15,612,855
Disposals	(7,705,404)	(9,751,324)	(17,456,728)
At 31 December 2021	92,935,922	130,740,052	223,675,974
Accumulated depreciation			
At 1 January 2021	90,376,733	92,463,842	182,840,575
Charges for the year	3,627,246	13,443,027	17,070,273
Disposals	(7,666,806)	(9,753,632)	(17,420,438)
At 31 December 2021	86,337,173	96,153,237	182,490,410
Net book value			
At 31 December 2021	6,598,749	34,586,815	41,185,564

	Office equipments and furnitures	Computers and other electronic equipments	Total
Cost			
At 1 January 2020	98,277,377	114,528,832	212,806,209
Additions	3,862,013	19,340,868	23,202,881
Disposals	(2,982,357)	(7,506,886)	(10,489,243)
At 31 December 2020	99,157,033	126,362,814	225,519,847
Accumulated depreciation			
At 1 January 2020	88,215,689	84,889,487	173,105,176
Charges for the year	5,140,038	12,853,680	17,993,718
Disposals	(2,978,994)	(5,279,325)	(8,258,319)
At 31 December 2020	90,376,733	92,463,842	182,840,575
Net book value			
At 31 December 2020	8,780,300	33,898,972	42,679,272

(All amounts expressed in RMB unless otherwise stated)

18 INTANGIBLE ASSETS

	Software contracts
Cost	
At 1 January 2021	120,530,698
Additions	22,813,384
Disposals	(6,780,248)
At 31 December 2021	136,563,834
Accumulated amortization	
At 1 January 2021	103,825,471
Charges for the year	8,788,132
Disposals	(6,780,248)
At 31 December 2021	105,833,355
Net book value	
At 31 December 2021	30,730,479

	Software contracts
Cost	
At 1 January 2020	158,751,101
Additions	4,104,698
Disposals	(42,325,101)
At 31 December 2020	120,530,698
Accumulated amortization	
At 1 January 2020	134,406,699
Charges for the year	10,980,211
Disposals	(41,561,439)
At 31 December 2020	103,825,471
Net book value	
At 31 December 2020	16,705,227

In accordance with the requirement of the financial statement presentation, the Bank reclassified software contracts from fixed assets to intangible assets in 2021. The comparative figures were adjusted accordingly.

(1) Deferred income tax assets

	31 December 2021	**31 December 2020**
Provision for impairment	473,508,308	448,103,385
Fair value measurement of financial instruments	13,209,203	52,740,562
Share based incentive plan not exercised	9,524,151	10,869,354
Accrued expenses	121,140,514	96,383,773
Others	7,967,593	2,532,088
Total	625,349,769	610,629,162

(All amounts expressed in RMB unless otherwise stated)

19 DEFERRED INCOME TAX ASSETS (continued)

(1) Deferred income tax assets (continued)

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2021 (for the year ended 31 December 2020: 25%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

(2) Movement of deferred income tax assets

	2021			
	At 1 January	Recognised into profit or loss	Recognised into other comprehensive income	At 31 December
Provision for impairment	448,103,385	25,404,923	-	473,508,308
Fair value measurement of financial instruments	52,740,562	(22,312,852)	(17,218,507)	13,209,203
Share based incentive plan not exercised	10,869,354	(1,345,203)	-	9,524,151
Accrued expenses	96,383,773	24,756,741	-	121,140,514
Others	2,532,088	5,435,505	-	7,967,593
Total	610,629,162	31,939,114	(17,218,507)	625,349,769

	2020			
	At 1 January	Recognised into profit or loss	Recognised into other comprehensive income	At 31 December
Provision for impairment	258,372,910	189,730,475	-	448,103,385
Fair value measurement of financial instruments	36,420,590	(756,629)	17,076,601	52,740,562
Share based incentive plan not exercised	11,774,562	(905,208)	-	10,869,354
Accrued expenses	93,918,260	2,465,513	-	96,383,773
Others	1,238,752	1,293,336	-	2,532,088
Total	401,725,074	191,827,487	17,076,601	610,629,162

(All amounts expressed in RMB unless otherwise stated)

20 OTHER ASSETS

	31 December 2021	31 December 2020
Security deposits and guarantee deposits	732,346,886	2,334,630,806
Right-of-use assets (1)	552,405,005	303,077,965
Settlement receivables from customers	561,350,593	405,083,592
Receivables from related parties (Note 50 (e)(3))	33,548,622	24,886,328
Prepaid expenses	14,010,129	12,340,756
Leasehold improvement	5,575,772	4,446,985
Others	28,979,117	37,340,705
Less: ECL allowance	(18,037,978)	(20,478,908)
Total	1,910,178,146	3,101,328,229

(1) Right-of-use Assets

	Office	Data center	Total
Cost			
At 1 January 2021	557,639,924	21,094,616	578,734,540
Additions	450,900,115	-	450,900,115
Decreases	(181,115,804)	-	(181,115,804)
At 31 December 2021	827,424,235	21,094,616	848,518,851
Accumulated depreciation			
At 1 January 2021	266,722,818	8,933,757	275,656,575
Additions	127,106,175	4,466,878	131,573,053
Decreases	(111,115,782)	-	(111,115,782)
At 31 December 2021	282,713,211	13,400,635	296,113,846
Net book value			
At 1 January 2021	290,917,106	12,160,859	303,077,965
At 31 December 2021	544,711,024	7,693,981	552,405,005
Lease Liabilities			
At 31 December 2021	560,945,006	8,039,089	568,984,095

(All amounts expressed in RMB unless otherwise stated)

20 OTHER ASSETS (Continued)

(1) Right-of-use Assets (Continued)

	Office	Data center	Total
Cost			
At 1 January 2020	485,090,200	21,094,616	506,184,816
Additions	72,549,724	-	72,549,724
At 31 December 2020	557,639,924	21,094,616	578,734,540
Accumulated depreciation			
At 1 January 2020	131,446,514	4,466,879	135,913,393
Additions	135,276,304	4,466,878	139,743,182
At 31 December 2020	266,722,818	8,933,757	275,656,575
Net book value			
At 1 January 2020	353,643,686	16,627,737	370,271,423
At 31 December 2020	290,917,106	12,160,859	303,077,965
Lease Liabilities			
At 31 December 2020	296,773,236	12,545,756	309,318,992

As at 31 December 2021, there is no lease that is committed but not yet commenced. (31 December 2020: nil).

21 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Deposits from banks		
- Domestic	4,773,896,037	1,500,458,080
- Overseas	1,041,705,806	2,224,093,206
Subtotal	5,815,601,843	3,724,551,286
Deposits from financial institutions		
- Domestic	11,849,307,072	11,088,935,931
- Overseas	188,535,787	158,429,786
Subtotal	12,037,842,859	11,247,365,717
Add: Interest payable	39,646,321	7,157,191
Total	17,893,091,023	14,979,074,194

(All amounts expressed in RMB unless otherwise stated)

22 BORROWING FROM OTHER BANKS

	31 December 2021	31 December 2020
Borrowing from other banks		
- Domestic	3,553,403,500	4,777,313,750
- Overseas	8,279,771,271	13,231,344,614
Subtotal	11,833,174,771	18,008,658,364
Add: Interest payable	41,432,587	6,889,369
Total	11,874,607,358	18,015,547,733

23 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Analyzed by collateral type:	31 December 2021	31 December 2020
At amortized cost		
Bond	-	500,000,000
Add: Interest payable	-	1,522,475
Subtotal	-	501,522,475
At FVTPL		
Bond	5,773,509,626	3,820,308,074
Total	5,773,509,626	4,321,830,549

24 DUE TO CUSTOMERS

	31 December 2021	31 December 2020
Current deposits		
- Corporate	15,506,525,042	15,029,434,765
- Retail	3,676,042,587	4,650,938,611
Time deposits		
- Corporate	39,468,303,815	32,275,009,715
- Retail	3,057,379,762	3,720,671,708
Structured investment products		
- Corporate	3,099,342,350	3,832,984,143
- Retail	6,458,104,900	4,419,536,288
Margin deposits		
- Corporate	588,690,931	174,912,178
Add: Interest payable	214,684,180	297,057,354
Total	72,069,073,567	64,400,544,762

(All amounts expressed in RMB unless otherwise stated)

25 PAYROLL AND WELFARE PAYABLE

	31 December 2021	31 December 2020
Short-term employee benefits	199,954,454	164,004,824
Post-employment benefits – defined contribution plans	7,930,024	2,487,540
Total	207,884,478	166,492,364

The movement of payroll and welfare payable

	31 December 2020	Additions	Deductions	31 December 2021
Short-term employee benefits	164,004,824	1,150,340,176	(1,114,390,546)	199,954,454
Post-employment benefits – defined contribution plans	2,487,540	77,188,079	(71,745,595)	7,930,024
Total	166,492,364	1,227,528,255	(1,186,136,141)	207,884,478

26 TAXES PAYABLE

	31 December 2021	31 December 2020
Corporate income tax	49,631,064	130,970,099
Value added tax and surcharges	45,014,191	39,435,892
Withholding individual income tax and others	26,197,307	23,651,943
Withholding corporate tax	5,730,201	7,657,196
Total	126,572,763	201,715,130

27 PROVISION

	31 December 2021	31 December 2020
At 1 January	120,177,537	15,018,981
Current year (reversal)/provision	(110,000,177)	105,158,556
At 31 December	10,177,360	120,177,537

28 DEBT SECURITIES ISSUED

	31 December 2021	31 December 2020
Negotiable certificates of deposit	7,773,606,821	388,127,556
Tier 2 capital bond	2,000,000,000	-
Financial bond	-	2,998,802,917
Add: Interest payable	72,882,192	62,453,425
Total	9,846,489,013	3,449,383,898

(All amounts expressed in RMB unless otherwise stated)

28 DEBT SECURITIES ISSUED (continued)

On 19 March 2021, the Bank issued a subordinated debt of RMB 2 billion in the China Interbank Bond Market qualified as regulatory Tier 2 capital under the China Banking and Insurance Regulatory Commission Capital Rules for Commercial Banks (Provisional) ("Capital Rules"), with the coupon rate of 4.70%, and its maturity date is 24 March 2031.

On 18 July 2018, the Bank issued a financial bond of RMB 3 billion in the China Interbank Bond Market, with the coupon rate of 4.55%, and its maturity date is 18 July 2021.

In 2021, the Bank issued the Negotiable Certificate of Deposit with total principal of RMB 15.82 billion, and the terms are from 1 month to 1 year, with coupon rates ranging from 2.55% to 2.88% per annum.

29 OTHER LIABILITIES

	31 December 2021	31 December 2020
Lease liabilities	568,984,095	309,318,992
Accrued expenses	236,069,853	180,649,346
Settlement payables	101,452,308	155,541,399
Payable to overseas related parties (Note 50(e) (3))	1,100,508,916	70,780,477
Unearned commission income	38,990,101	48,341,834
Shanghai Clearing House mark-to-market margin deposits	28,398,728	-
Others	6,494,989	71,630,791
Total	2,080,898,990	836,262,839

30 PAID-IN CAPITAL

	31 December 2021	31 December 2020
Registered and fully paid by DBS Bank	8,000,000,000	8,000,000,000

The paid-in capital has been verified by the accounting firm and the capital verification reports were issued.

31 CAPITAL SURPLUS

	31 December 2020	Additions	Reductions	31 December 2021
Capital surplus recognised due to China Accounting Standard change	22,571,343	-	-	22,571,343
Others	10,890,663	-	(7,279)	10,883,384
Total	33,462,006	-	(7,279)	33,454,727

(All amounts expressed in RMB unless otherwise stated)

32 OTHER COMPREHENSIVE INCOME

	31 December 2021						
	Balance sheet			Income statement			
	As at 31 December 2020	Change net of tax	As at 31 December 2021	Amount before tax	Less: reclassification of other comprehensive income to income statement	Less: Tax	Net of tax amount
Other comprehensive income items which will be reclassified to income statement							
- Fair value changes of other debt instruments	(2,627,378)	53,879,275	51,251,897	79,348,016	(7,213,732)	(18,255,009)	53,879,275
- ECL on other debt instruments	2,470,066	(155,957)	2,314,109	(2,774,709)	2,566,767	51,985	(155,957)
- Effective portion of gains or losses on hedging instruments in cash flow hedges	1,401,530	(2,871,569)	(1,470,039)	(3,856,086)	-	984,517	(2,871,569)
Total	1,244,218	50,851,749	52,095,967	72,717,221	(4,646,965)	(17,218,507)	50,851,749

(All amounts expressed in RMB unless otherwise stated)

32 OTHER COMPREHENSIVE INCOME (continued)

	31 December 2020						
	Balance sheet			Income statement			
	As at 31 December 2019	Change net of tax	As at 31 December 2020	Amount before tax	Less: reclassification of other comprehensive income to income statement	Less: Tax	Net of tax amount
Other comprehensive income items which will be reclassified to income statement							
- Fair value changes of other debt instruments	47,979,182	(50,606,560)	(2,627,378)	(66,694,276)	(1,076,604)	17,164,320	(50,606,560)
- ECL on other debt instruments	1,597,360	872,706	2,470,066	1,146,067	17,544	(290,905)	872,706
- Effective portion of gains or losses on hedging instruments in cash flow hedges	2,084,778	(683,248)	1,401,530	(886,434)	-	203,186	(683,248)
Total	51,661,320	(50,417,102)	1,244,218	(66,434,643)	(1,059,060)	17,076,601	(50,417,102)

(All amounts expressed in RMB unless otherwise stated)

33 SURPLUS RESERVE

	31 December 2021	31 December 2020
At 1 January	423,211,368	405,704,608
Current year appropriation	73,512,108	17,506,760
At 31 December	496,723,476	423,211,368

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. Upon the approval from the Board of Directors, RMB 73,512,108 is appropriated to the reserve fund which is calculated as 10% of the net profit in 2021 (2020: RMB 17,506,760).

34 GENERAL RISK RESERVE

	31 December 2021	31 December 2020
At 1 January	1,450,400,000	1,297,600,000
Current year appropriation	32,500,000	152,800,000
At 31 December	1,482,900,000	1,450,400,000

On 29 January 2021, the Board of directors approved an appropriation to the Bank's general risk reserve amounting to RMB 32.5 million in accordance with Circular Caijin No.20 issued on 17 April 2012. The general risk reserve after the appropriation amounts to RMB 1,482,900,000, which is 1.5% of the Bank's total risk assets.

35 UNDISTRIBUTED PROFITS

(1) Profit distribution in the current year

	2021	2020
At 1 January	2,068,083,243	2,063,322,398
Add: Profit for the year	735,121,085	175,067,605
Less: Surplus reserve	(73,512,108)	(17,506,760)
General risk reserve	(32,500,000)	(152,800,000)
At 31 December	2,697,192,220	2,068,083,243

(2) Profit distribution after the balance sheet date

On 28 January 2022, the Board of directors approved an appropriation of RMB 144,200,000 to the Bank's general risk reserve in accordance with Circular Caijin No.20 issued on 17 April 2012.

(All amounts expressed in RMB unless otherwise stated)

36 NET INTEREST INCOME

	2021	2020
Interest income:		
Loans and advances to customers	1,946,201,630	2,133,135,812
Deposits with other banks and placements with financial institutions	973,014,706	935,354,114
Other debt instruments	322,142,656	278,649,016
Debt instruments	189,754,728	124,918,036
Deposits with central bank	90,275,792	94,798,827
Financial assets purchased under resale agreements	4,364,342	9,606,910
Total	3,525,753,854	3,576,462,715
Interest expense:		
Due to customers	(890,338,479)	(1,174,830,517)
Deposits and borrowing from other banks and financial institutions	(617,550,585)	(318,104,509)
Debt securities issued	(240,872,146)	(281,428,719)
Financial assets sold under repurchase agreements	(13,947,919)	(7,722,255)
Lease liabilities	(12,562,846)	(8,735,679)
Total	(1,775,271,975)	(1,790,821,679)
Net interest income	1,750,481,879	1,785,641,036

37 NET FEE AND COMMISSION INCOME

	2021	2020
Fee and commission income		
Wealth management	227,214,689	172,740,595
Loan and trade related	82,840,679	78,699,941
Treasury advisory	15,044,009	32,505,877
Cash Management	32,508,119	30,858,517
Syndication	21,146,231	12,084,723
Others	20,193,355	24,273,062
Total	398,947,082	351,162,715
Fee and commission expense	(73,208,176)	(66,350,691)
Net fee and commission income	325,738,906	284,812,024

(All amounts expressed in RMB unless otherwise stated)

38 INVESTMENT INCOME

	2021	2020
Trading assets	437,756,488	396,151,017
Non-foreign exchange derivative instruments	150,367,646	13,395,861
Other debt instruments	32,227,244	33,577,180
Financial assets purchased under resale and sold under repurchase agreements	(113,715,725)	(37,407,371)
Total	506,635,653	405,716,687

39 FAIR VALUE GAINS

	2021	2020
Non-foreign exchange derivative instruments	134,290,143	11,264,420
Trading assets	(40,657,051)	(11,460,962)
Debt securities issued	-	3,425,762
Financial assets purchased under resale and sold under repurchase agreements	(4,272,161)	(315,010)
Total	89,360,931	2,914,210

40 EXCHANGE GAINS

	2021	2020
Foreign exchange transactions and foreign exchange derivative instruments	236,956,357	200,018,144

The amount includes the realized and unrealized gains or losses from foreign exchange derivative instruments and exchange gains or losses from translation of foreign currency assets and liabilities.

41 OTHER BUSINESS INCOME/EXPENSE

	2021	2020
OTHER BUSINESS INCOME		
Service charge income from related parties (Note 50(e) (2))	12,751,845	9,598,135
Others	11,348,741	10,883,898
Total	24,100,586	20,482,033
OTHER BUSINESS EXPENSE		
Cost of service charge income	11,994,458	8,357,363

(All amounts expressed in RMB unless otherwise stated)

42 OTHER INCOME

	2021	2020
Government grants	8,788,977	8,702,109

43 GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Employee benefits	1,249,332,534	1,145,935,048
Short-term employee benefits	1,150,340,176	1,114,659,189
Post-employment benefits	77,188,079	7,920,289
Share Based Payment	21,804,279	23,355,570
Depreciation and amortization	159,454,124	170,387,478
Telecommunications and computers	114,089,945	104,598,659
Service charge expense to related parties (Note 50(e) (2))	86,207,883	94,679,459
Rental and utilities	11,792,346	8,347,122
Others	193,616,770	163,522,881
Total	1,814,493,602	1,687,470,647

44 CREDIT IMPAIRMENT LOSSES

	2021	2020
Deposits with central bank	(58,002)	502,582
Deposits with other banks	(150,007)	156,047
Placements with financial institutions	(23,166,229)	22,061,483
Loans and advances to customers	359,208,804	699,716,347
Financial assets purchased under resale agreements	(410,368)	(23,765)
Debt instruments	515,719	474,756
Other debt instruments	(207,942)	1,163,611
Other assets	(787,606)	2,800,378
Loan commitments and financial guarantees	(110,000,177)	105,158,556
Total ECL charge	224,944,192	832,009,995
Recovery of loans previously written-off	(11,988,079)	(5,693,608)
Total	212,956,113	826,316,387

(All amounts expressed in RMB unless otherwise stated)

44 CREDIT IMPAIRMENT LOSSES (continued)

The additional information of ECL movement including the allowances of all financial assets and provision is as follow:

(a) ECL movement of loans and advances to customers

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	491,470,077	341,799,395	52,377,516	885,646,988
Transfer to (from)	(1,404,560)	1,370,259	34,301	-
- Stage 1	(1,624,678)	1,594,723	29,955	-
- Stage 2	220,118	(224,464)	4,346	-
- Stage 3	-	-	-	-
Net portfolio change	23,638,352	(8,898,475)	-	14,739,877
- Newly originated or purchased financial assets	48,254,265	939,553	-	49,193,818
- De-recognition of financial assets	(24,615,913)	(9,838,028)	-	(34,453,941)
Remeasurements	(84,325,420)	114,211,505	314,582,842	344,468,927
Total net charge to income statement	(62,091,628)	106,683,289	314,617,143	359,208,804
Net write-offs	-	-	(307,123,386)	(307,123,386)
Exchange and other movements	-	-	(390,135)	(390,135)
Balance at 31 December 2021	429,378,449	448,482,684	59,481,138	937,342,271

(All amounts expressed in RMB unless otherwise stated)

44 CREDIT IMPAIRMENT LOSSES (continued)

(a) ECL movement of loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	278,137,830	679,051,531	190,772,906	1,147,962,267
Transfer to (from)	2,154,279	(2,544,958)	390,679	-
- Stage 1	(2,386,959)	2,147,424	239,535	-
- Stage 2	4,541,238	(4,692,382)	151,144	-
- Stage 3	-	-	-	-
Net portfolio change	(8,117,375)	(28,061,016)	-	(36,178,391)
- Newly originated or purchased financial assets	3,411,719	10	-	3,411,729
- De-recognition of financial assets	(11,529,094)	(28,061,026)	-	(39,590,120)
Remeasurements	219,295,343	(306,646,162)	823,245,557	735,894,738
Total net charge to income statement	213,332,247	(337,252,136)	823,636,236	699,716,347
Net write-offs	-	-	(966,084,507)	(966,084,507)
Exchange and other movements	-	-	4,052,881	4,052,881
Balance at 31 December 2020	491,470,077	341,799,395	52,377,516	885,646,988

(All amounts expressed in RMB unless otherwise stated)

44 CREDIT IMPAIRMENT LOSSES (continued)

(b) ECL movement of other financial assets and provision

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	37,902,279	28,715,968	120,478,908	187,097,155
Transfer to (from)	(3,801)	3,801	-	-
- Stage 1	(3,801)	3,801	-	-
- Stage 2	-	-	-	-
- Stage 3	-	-	-	-
Net portfolio change	2,670,731	-	-	2,670,731
- Newly originated or purchased financial assets	4,289,542	-	-	4,289,542
- De-recognition of financial assets	(1,618,811)	-	-	(1,618,811)
Remeasurements	(8,897,210)	(27,250,527)	(100,787,606)	(136,935,343)
Total net charge to income statement	(6,230,280)	(27,246,726)	(100,787,606)	(134,264,612)
Net write-offs	-	-	(1,653,324)	(1,653,324)
Exchange and other movements	-	-	-	-
Balance at 31 December 2021	31,671,999	1,469,242	18,037,978	51,179,219

(All amounts expressed in RMB unless otherwise stated)

44 CREDIT IMPAIRMENT LOSSES (continued)

(b) ECL movement of other financial assets and provision (continued)

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	35,207,089	1,917,888	31,476,780	68,601,757
Transfer to (from)	(529,444)	(224,088)	753,532	-
- Stage 1	(756,647)	3,115	753,532	-
- Stage 2	227,203	(227,203)	-	-
- Stage 3	-	-	-	-
Net portfolio change	9,655,092	(7,307,290)	-	2,347,802
- Newly originated or purchased financial assets	10,407,202	-	-	10,407,202
- De-recognition of financial assets	(752,110)	(7,307,290)	-	(8,059,400)
Remeasurements	(6,430,458)	34,329,458	102,046,846	129,945,846
Total net charge to income statement	2,695,190	26,798,080	102,800,378	132,293,648
Net write-offs	-	-	(13,798,250)	(13,798,250)
Exchange and other movements	-	-	-	-
Balance at 31 December 2020	37,902,279	28,715,968	120,478,908	187,097,155

* Other financial assets include: Deposits with central bank, Placements with financial institutions, Deposits with other banks, Financial assets purchased under resale agreements, Debt instruments, Other debt instruments,Other assets and loan commitments and financial guarantees.

45 CORPORATE INCOME TAX

	2021	2020
Current income tax	183,850,247	172,666,902
Deferred income tax (Note 19)	(31,939,114)	(191,827,487)
Total	151,911,133	(19,160,585)

(All amounts expressed in RMB unless otherwise stated)

45 CORPORATE INCOME TAX (continued)

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

	2021	2020
Profit before income tax	887,032,218	155,907,020
Income tax calculated at 25% (2020: 25%)	221,758,055	38,976,755
Non-taxable income (1)	(75,234,727)	(62,980,310)
Non-deductible expenses	5,716,672	5,264,847
Others	(328,867)	(421,877)
Corporate income tax	151,911,133	(19,160,585)

(1) Non-taxable income mainly comprises of interest income from government securities and local government debt securities.

46 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2021	31 December 2020
Cash (Note 8)	28,806,155	34,651,892
Balances with central bank other than restricted reserve deposits (Note 8)	6,542,868,954	3,950,627,678
Deposits with other banks with original terms less than three months from acquisition date	1,464,044,418	1,513,335,983
Placements with financial institutions with original terms less than three months from acquisition date	10,369,987,950	1,011,563,250
Total	18,405,707,477	6,510,178,803

(All amounts expressed in RMB unless otherwise stated)

46 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(2) Reconciliation of net profit to cash flows from operating activities

	Notes	**2021**	**2020**
Net profit		735,121,085	175,067,605
Adjusted by:			
Credit impairment losses	44	224,944,192	832,009,995
Depreciation and amortization	43	159,454,124	170,387,478
Interest income from debt instruments	36	(189,754,728)	(124,918,036)
Interest income from other debt instruments	36	(322,142,656)	(278,649,016)
Investment gains from other debt instruments	38	(32,227,244)	(33,577,180)
Losses on disposal of fixed assets and other long-term assets		70,917	2,994,586
Interest expenses of debt securities issued	36	240,872,146	281,428,719
Interest expenses of lease liabilities	36	12,562,846	8,735,679
Gains from fair value change	39	(89,360,931)	(2,914,210)
Exchange (gains)/losses		(97,805,758)	681,414,088
Increase in deferred tax assets	45	(31,939,114)	(191,827,487)
Increase in operating receivables		(1,527,595,937)	(10,915,351,021)
Increase in operating payables		7,217,429,647	7,950,915,714
Net cash generated from/ (used in) operating activities		6,299,628,589	(1,444,283,086)

(3) Net increase / (decrease) in cash and cash equivalents:

	2021	**2020**
Cash and cash equivalents at the end of year	18,405,707,477	6,510,178,803
Less: cash and cash equivalents at the beginning of year	(6,510,178,803)	(17,855,422,353)
Net increase / (decrease) in cash and cash equivalents	11,895,528,674	(11,345,243,550)

(4) Cash flow related to lease

In 2021, the total lease-related cash outflow paid by the Bank is RMB 129,032,480 (2020: RMB 158,977,704), and there is no remaining cash outflow included in operating activities except for the amount paid to settle the lease liability as mentioned above in financing activities.

(All amounts expressed in RMB unless otherwise stated)

47 COMMITMENTS AND CONTINGENT ITEMS

(1) Loan commitments and financial guarantees

	31 December 2021	31 December 2020
Letters of credit issued	2,643,277,964	3,020,451,617
Standby letter of credit	2,464,643,239	3,531,092,897
Letters of guarantee issued	3,652,615,037	2,483,439,772
Irrevocable loan commitment	3,161,322,615	2,449,685,556
Bank acceptances	2,073,368,029	1,749,454,046
Letters of credit confirmation	216,490	5,634,643
Total	13,995,443,374	13,239,758,531

(2) Credit risk-weighted assets of loan commitments and financial guarantees

	31 December 2021	31 December 2020
Credit risk-weighted assets of loan commitments and financial guarantees	7,050,241,700	6,806,168,800

The credit risk-weighted amount is determined in accordance with the provisions of the former CBRC's "Commercial Bank Capital Management Measures (Trial)" (Order No. 1 [2012] of the China Banking Regulatory Commission), and is determined based on factors such as the counterparty's credit status and maturity. The risk weight of credit commitments varies from 0% to 150%.

(3) Legal proceedings

At at 31 December 2021, there was no significant legal proceeding against the Bank (31 December 2020: nil).

(4) Capital commitments

As at 31 December 2021, the Bank has no significant capital commitments which require separate disclosure (31 December 2020: nil).

(All amounts expressed in RMB unless otherwise stated)

48 SEGMENT INFORMATION

RMB ('thousand)

31 December 2021	**Head office**	**Shanghai**	**Beijing**	**Shenzhen**	**Guangzhou**	**Hangzhou**	**Suzhou**	**Chongqing**	**Others**	**Elimination**	**Total**
Interest income	2,310,248	1,645,319	340,823	201,820	117,464	30,589	57,547	54,222	131,640	(1,363,918)	3,525,754
Interest expense	(1,677,535)	(1,049,711)	(143,792)	(71,915)	(53,846)	(9,763)	(21,324)	(26,305)	(84,999)	1,363,918	(1,775,272)
Net interest income	632,713	595,608	197,031	129,905	63,618	20,826	36,223	27,917	46,641	-	1,750,482
Fee and commission income	14,327	198,985	120,773	20,815	18,021	9,251	4,708	6,843	5,224	-	398,947
Fee and commission expense	(65,807)	(6,858)	(391)	(110)	(31)	(5)	(3)	(1)	(2)	-	(73,208)
Net fee and commission income	(51,480)	192,127	120,382	20,705	17,990	9,246	4,705	6,842	5,222	-	325,739
Other operating income	32,929	516,498	176,035	42,216	25,002	15,986	12,867	27,270	16,968	-	865,771
Operating expenses	(597,163)	(818,175)	(283,250)	(153,268)	(115,913)	(24,711)	(11,269)	(12,531)	(44,239)	-	(2,060,519)
Non-operating income/(expenses)	2,896	1,253	(80)	1,152	167	28	19	46	78	-	5,559
Total profit/(loss) before tax	19,895	487,311	210,118	40,710	(9,136)	21,375	42,545	49,544	24,670	-	887,032
Loans and advances, net	-	27,784,847	9,647,979	3,685,052	3,692,393	656,964	624,240	920,229	1,548,577	-	48,560,281
Total assets	75,832,394	60,783,723	12,698,202	7,880,079	3,739,344	2,987,997	2,214,537	1,839,376	3,628,891	(31,673,869)	139,930,674
Due to customers	(7,067,780)	(36,736,827)	(10,834,241)	(6,708,194)	(2,427,216)	(2,648,138)	(1,623,840)	(1,244,538)	(2,778,300)	-	(72,069,074)
Total liabilities	(71,877,304)	(56,767,040)	(11,332,783)	(6,832,626)	(3,268,660)	(2,674,569)	(1,639,516)	(1,281,034)	(3,168,645)	31,673,869	(127,168,308)
Credit impairment losses	(29,275)	219,861	1,462	(11,674)	45,749	(1,414)	(2,150)	(5,858)	(3,745)	-	212,956
Depreciation and amortization	54,133	39,134	38,892	12,056	5,164	3,708	731	1,527	4,109	-	159,454
Capital expenditure	39,320	-	466	339	25	417	-	938	136	-	41,641

(All amounts expressed in RMB unless otherwise stated)

48 SEGMENT INFORMATION (continued)

RMB ('thousand)

31 December 2020	**Head office**	**Shanghai**	**Beijing**	**Shenzhen**	**Guangzhou**	**Hangzhou**	**Suzhou**	**Chongqing**	**Others**	**Elimination**	**Total**
Interest income	2,225,247	1,721,438	321,693	268,614	109,323	37,047	97,473	61,649	166,985	(1,433,006)	3,576,463
Interest expense	(1,660,265)	(1,094,833)	(130,351)	(133,499)	(53,202)	(17,291)	(36,350)	(31,204)	(104,956)	1,433,006	(1,828,945)
Net interest income	564,982	626,605	191,342	135,115	56,121	19,756	61,123	30,445	62,029	-	1,747,518
										-	
Fee and commission income	24,946	162,230	99,184	19,805	15,102	11,451	5,216	8,851	4,378	-	351,163
Fee and commission expense	(55,233)	(10,511)	(304)	(217)	(56)	(12)	(8)	(1)	(9)	-	(66,351)
Net fee and commission income	(30,287)	151,719	98,880	19,588	15,046	11,439	5,208	8,850	4,369	-	284,812
										-	
Other operating income	(318,749)	733,827	141,258	29,560	18,283	4,137	21,074	26,636	16,935	-	672,961
Operating expenses	(625,967)	(1,364,801)	(247,203)	(142,792)	(61,903)	(22,216)	(13,875)	(23,610)	(41,162)	-	(2,543,529)
Non-operating income/(expenses)	(8,372)	1,704	181	336	78	23	15	100	80	-	(5,855)
										-	
Total profit/(loss) before tax	(418,393)	149,054	184,458	41,807	27,625	13,139	73,545	42,421	42,251	-	155,907
Loans and advances, net	-	25,641,843	5,607,215	3,161,304	2,063,676	319,996	853,004	898,730	2,899,235	-	41,445,003
Total assets	76,345,907	54,760,850	12,294,299	9,829,423	2,703,099	886,078	2,421,409	1,923,209	4,632,825	(31,328,706)	134,468,393
Due to customers	(4,234,984)	(31,908,669)	(10,092,844)	(8,677,245)	(2,153,396)	(606,116)	(1,871,721)	(1,299,619)	(3,555,951)	-	(64,400,545)
Total liabilities	(72,336,147)	(51,349,574)	(10,856,269)	(8,803,949)	(2,234,249)	(627,965)	(1,910,284)	(1,451,555)	(4,250,707)	31,328,706	(122,491,993)
Credit impairment losses	34,389	821,857	(3,792)	(13,400)	(3,776)	(4,782)	(333)	3,133	(6,980)	-	826,316
Depreciation and amortization	14,725	88,026	39,338	11,957	5,189	3,906	745	1,443	5,059	-	170,388
Capital expenditure	24,556	-	792	3,480	401	-	31	79	324	-	29,663

The Bank's revenue from external customers is mainly from mainland China for 2021 and 2020. As at 31 December 2021 and 2020, all non-current assets of the Bank are located in mainland China.

(All amounts expressed in RMB unless otherwise stated)

49 SHARE-BASED COMPENSATION PLANS

The Bank provides various share-based compensation plans to foster a culture that aligns employees' interests with shareholders, enable employees to share in the bank's performance and enhance talent retention. The Bank, per review and approval by DBS China Board Nomination and Compensation Committee, adopts the share-based Compensation Plans formulated by DBS Group as below:

- DBSH Share Plan (Share Plan)
- DBSH Employee Share Plan (ESP)
- DBSH Employee Share Purchase Plan (ESPP)

	2021			2020		
Number of shares	Share Plan	ESP	ESPP	Share Plan	ESP	ESPP
Balance at 1 January	541,935	39,857	32,839	500,479	88,876	12,422
Granted	215,073	-	17,146	238,799	-	22,155
Transfer	16,024	(150)	(395)	(15,479)	(20)	(284)
Vested	(141,488)	(27,625)	-	(169,359)	(47,395)	(169)
Forfeited	(24,418)	(1,086)	(3,918)	(12,505)	(1,604)	(1,285)
Balance at 31 December	607,126	10,996	45,672	541,935	39,857	32,839
Weighted average fair value of the shares granted during the year	SGD 22.28	SGD -	SGD 26.03	SGD 21.29	SGD -	SGD 18.59

The Bank's share-based payments are equity-settled.

50 SIGNIFICANT 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 24,452 million	Peter Seah Lim Huat

DBS Group Holding Ltd., incorporated in Singapore, is the ultimate parent company of the Bank.

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

Name of entity	31 December 2020	Change	31 December 2021
DBS Bank Ltd.	SGD 24,452 million	-	SGD 24,452 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 2020		Change		31 December 2021	
	Amount RMB	%	Amount RMB	%	Amount RMB	%
DBS Bank Ltd.	8.0 billion	100	-	-	8.0 billion	100

50 SIGNIFICANT RELATED PARTYS AND TRANSACTIONS (continued)

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

(1) Related Entity

Names of related parties	Relationship with the Bank	Registered location	Economic nature or type	Main business	Registered capital	Chairman of the Board
DBS Bank (Hong Kong) Limited	Company controlled by the parent company	Hong Kong	Company with limited liability	Banking and financial service	HKD 8,995 million	SEAH Lim Huat Peter
DBS Bank (Taiwan) Limited	Company controlled by the parent company	Taiwan	Company with limited liability	Banking and financial service	NTD32,250 million	Andrew Ng Wai Hung
DBS Vickers (Hong Kong) Limited	Company controlled by the parent company	Hong Kong	Company with limited liability	Provision of securities, futures and options brokerage services to clients	HKD150 million	Anuruk Karoonyavanich
DBS Investment and Financial Advisory Company Limited	Company controlled by the parent company	China	Company with limited liability	Financial advisory	USD 1 million	Anuruk Karoonyavanich
DBS Bank (India) Limited	Company controlled by the parent company	India	Company with limited liability	Banking and financial service	INR 10,000 crore	Lim Sok Hui
DBS Securities (China) Limited	Company controlled by the parent company	China	Company with limited liability	Securities Brokerage; Securities Advisory Service; Securities Proprietary Trading; Securities Underwriting and Sponsorship.	RMB15,000 million	Hua Ying
Changsheng Fund Management Company	Associate of the parent company	China	Company with limited liability	Fund management	RMB 206 million	Gao Minhe
PSBC Consumer Finance Company Limited	Associate of the parent company	China	Company with limited liability	Consumer financing	RMB 3,000 million	Wang Xiaomin
Shenzhen Rural Commercial Bank Corporation Limited	Associate of the parent company	China	Company with limited liability	Banking	RMB 10,398 million	Li Guangan

(All amounts expressed in RMB unless otherwise stated)

50 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(2) Key management personnel

Key management personnel refers to people who have the power and responsibility to directly or indirectly plan, direct or control the business of the Bank, including but not limited to directors and senior management.

(e) Related party transactions

(1) Pricing policy

The major transactions entered into by the Bank with its related parties are borrowing, lending and derivative transactions. These transactions follow commercial terms in the ordinary course of the Bank's business, where service charges are agreed on an arm's length basis.

(2) Significant related party transactions

	2021	**2020**
Interest income	21,641,317	36,829,237
Interest expense	(141,091,102)	(147,279,435)
Exchange (losses)/gains	(3,736,844)	503,601,458
Investment income	266,204,317	205,729,822
Fair value (losses)/gains	(1,113,265,605)	410,738,263
Fee and commission income	10,532,119	8,776,211
Other business income	12,751,845	9,598,135
General and administrative expenses	(86,207,883)	(94,679,459)

(3) Balances with related parties

	31 December 2021	**31 December 2020**
Due from other financial institution	228,626,748	166,700,046
Placements with financial institutions	6,524,013,911	511,768,287
Financial assets purchased under resale agreements	1,534,435,900	4,905,430,088
Other assets (Note 20)	33,548,622	24,886,327
Deposits from other financial institution	1,027,054,993	2,249,591,606
Borrowing from other financial institution	8,320,556,104	13,238,076,376
Due to customers	10,457,807	40,130,111
Debt securities issued	1,223,000,494	-
Other liabilities (Note 29)	1,100,508,916	70,780,477

(All amounts expressed in RMB unless otherwise stated)

50 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions (continued)

(4) Derivatives instruments

	31 December 2021	
	Notional amount	**Fair value**
Foreign exchange derivatives	34,348,345,145	189,012,870
Interest rate derivatives	119,578,918,599	(63,918,176)
Other derivatives	15,721,069,307	(1,244,263,694)
	169,648,333,051	(1,119,169,000)

	31 December 2020	
	Notional amount	**Fair value**
Foreign exchange derivatives	57,896,700,150	(203,500,763)
Interest rate derivatives	42,262,043,551	(252,350,633)
Other derivatives	8,810,049,230	57,463,760
	108,968,792,931	(398,387,636)

(5) Loan commitments and financial guarantees

	31 December 2021	**31 December 2020**
Standby letter of credit	2,464,643,239	3,531,092,897
Letters of guarantee issued	6,216,548	26,634,513
Letters of credit issued	-	86,833,341

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits comprised of:

	2021	**2020**
Salary and welfare	54,534,279	79,239,534
Share incentive plan	6,156,236	11,204,065
Total	60,690,515	90,443,599

51 RISK MANAGEMENT

51.1 Risk governance

The China Board oversees the Bank's affairs and provides leadership for the CEO and management. Authorised by the Board, various Board committees oversee specific responsibilities based on clearly defined terms of reference.

Under the Bank's risk governance approach, the China Board, through the China Board Risk Management Committee (BRMC), sets the Bank's risk appetite, oversees the establishment of enterprise-wide risk management policies and processes and sets risk appetite limits to guide risk-taking within the Bank.

51 RISK MANAGEMENT (continued)

51.1 Risk governance (continued)

China BRMC oversees the identification, monitoring, management and reporting of credit, market, liquidity, operational and reputational risks. To facilitate China BRMC's risk oversight, the following risk management committees have been established:

1. Risk Executive Committee (Risk ExCo);
2. China Credit Risk Committee (CCRC);
3. China Market and Liquidity Risk Committee (CMLRC);
4. China Operational Risk Committee (CORC)
5. China Product Oversight Committee (CPOC); and
6. China Risk Models Committee (CRMC).

As the overall executive body regarding risk matters, the Risk ExCo oversees the Bank's risk management as a whole.

Each of the committees reports to the Risk ExCo and the committees as a whole serve as an executive forum to discuss and implement the Bank's risk management:

Key responsibilities:

- Assess and approve risk-taking activities;
- Oversee the Bank's risk management infrastructure, which includes frameworks, decision criteria, authorities, people, policies, standards, processes, information and systems;
- Approve risk policies;
- Assess and monitor specific credit concentration; and
- Recommend stress-testing scenarios (including macroeconomic variable projections) and review the results.

The members in these committees comprise representatives from the Risk Management Group (RMG) as well as key business and support units.

The Chief Risk Officer (CRO) oversees the risk management function, who is independent of business lines and is actively involved in key decision-making processes. He often engages with regulators to discuss risk matters, enabling a more holistic risk management perspective.

The CRO is responsible for the following:

- Management of the Bank's risks, including systems and processes to identify, approve, measure, monitor, control and report risks;
- Engagement with senior management about material matters regarding all risk types;
- Development of risk controls and mitigation processes; and
- Ensuring the Bank's risk management is effective and the Risk Appetite established by the China Board is adhered to.

51 RISK MANAGEMENT (continued)

51.2 Credit risk

The most significant measurable risk DBS China faces - Credit risk - arises from the Bank's daily activities in various businesses. These activities include lending to retail, corporate and institutional customers. It includes the risk of lending, pre-settlement and settlement risk of foreign exchange, derivatives and debt securities.

Credit Risk Management

The Bank's approach to credit risk management comprises the following building blocks:

A Policies

The dimensions of credit risk and the scope of its application are defined in the Group Credit Risk Management Policy (China Customized). Senior management sets the overall direction and policy for managing credit risk at the enterprise level.

The Bank localized Group Core Credit Risk Policies (CCRP) for Consumer Banking/Wealth Management and Institutional Banking that set forth the principles by which the Bank conducts its credit risk management and control activities. These policies, supplemented by a number of operational standards and guidelines, ensure consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across the Bank.

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

B Risk Methodologies

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

The assignment of credit risk ratings and setting of lending limits are integral parts of the Bank's credit risk management process, and it uses an array of rating models for its corporate and retail portfolios.

Wholesale borrowers are assessed individually using both judgmental and statistical credit risk models. They are further reviewed and evaluated by experienced credit risk managers who consider relevant credit risk factors in the final determination of the borrower's risk. Retail exposures are assessed using credit score models, credit bureau records, as well as internally and externally available customer behaviour records supplemented by the Bank's Risk Acceptance Criteria (RAC). Credit applications are proposed by the business units, and applications outside the RAC are independently assessed by the credit risk managers.

The Bank uses internal rating system to identify, out of the 11 broad ratings in the system, the risk rating of the corporate borrowers. At the same time, the Bank also assigns credit risk grade to each facility for both corporate and retail borrowers under a five grade asset classification system to manage the quality of its credit portfolio. Such classification system is based on "the Guidance on Credit Risk Classification" (the Guidance) issued by CBIRC. Under the Bank's own system and the CBIRC 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".

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

B Risk Methodologies (continued)

The core definition of the Bank's credit asset classification following CBIRC 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.

Pre-settlement credit risk for traded products arising from a counterparty's potentially defaulting on its obligations is generally quantified by an evaluation of the market price plus potential future exposure. This is included within the Bank's overall credit limits to counterparties for internal risk management.

The Bank actively monitors and manages its exposure to counterparties for over-the-counter (OTC) derivative trades to protect its balance sheet in the event of counterparty default. Counterparty risk exposures that may be adversely affected by market risk events are identified, reviewed and acted upon by management and highlighted to the appropriate risk committees.

Issuer default risk that may also arise from derivatives, notes and securities are generally measured based on jump-to-default computations.

(i) Concentration Risk Management

For credit risk concentration, thresholds are set on major industries and regions. Governance processes are in place to ensure that these thresholds are monitored regularly, and appropriate actions are taken when the thresholds are breached.

(ii) Environment, Social and Governance Risk

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

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

B Risk Methodologies (continued)

(ii) Environment, Social and Governance Risk (continued)

The Bank had localised Group Responsible Financing Standard that documents its overarching approach to responsible financing and additional assessment required when entering into transactions with elevated ESG risks. The requirements of this Standard represent the minimum standards for the Bank and it has also sought alignment, where possible, with international standards and best practices. Where significant ESG issues are identified, escalation is required to the relevant Global Industry Specialist and IBG Sustainability for further guidance prior to approval by the Credit Approving Authority.

In addition, DBS China had established Green Lending Guide, which aimed to perform negative checking on the “High Pollution, High Energy-consumption and Overcapacity” industries and “blacklisted companies” according to regulators’ definition and requirements to prevent relevant environmental and social risks. Meanwhile, we proactively engaged in credit lending to green industries with relevant credit lending target formulated to achieve the support to green industries.

C Country Risk

Country risk refers to the risk of loss due to events in a specific country (or a group of countries). This includes political, exchange rate, economic, sovereign and transfer risks.

The Bank manages country risk through the requirements of relevant internal policies and CBIRC <Country Risk Management Guideline>. The way the Bank manages transfer risk is set out in Group Country Risk Management Standard and its China Addendum. This includes an internal transfer risk and sovereign risk rating system, where assessments are made independently of business decisions.

Transfer risk limits for priority countries are set based on country-specific strategic business considerations as well as the acceptable potential loss according to the Bank’s Risk Appetite. Management actively evaluates and determines the appropriate level of transfer risk exposures for these countries taking into account the risks and rewards and whether they are in line with the Bank’s strategic intent. Limits for all other non-priority countries are set using a model-based approach. All transfer risk limits are approved by the China BRMC.

D Credit stress testing

The Bank engages in various types of credit stress testing, and these are driven either by regulators or internal requirements and management.

The Bank’s credit stress tests are performed at total portfolio or sub-portfolio level, and are generally conducted to assess the impact of changing economic conditions on asset quality, earnings performance, capital adequacy and liquidity. The Bank’s stress testing programme is comprehensive and covers all major functions and areas of business.

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

D Credit stress testing (continued)

The Bank typically performs the following types of credit stress testing at a minimum and others as necessary:

Pillar 1 credit stress testing	The Bank conducts Pillar I credit risk stress testing during annual internal capital adequacy assessment process (ICAAP) exercise as required by CBIRC, whereby regulatory RWAs under three Stress scenarios are projected using Standardized Approach based on EADs derived from budget balance sheet with consideration of Stress MEVs change. The purpose of the Pillar I credit risk stress testing is to assess the credit risk regulatory capital demand which is part of overall regulatory capital position adequacy assessment.
Pillar 2 credit stress testing	The Group conducts Pillar 2 credit stress testing once a year as part of the internal capital adequacy assessment process (ICAAP). Under Pillar 2 credit stress testing, the Group assesses the impact of stress scenarios, with different levels of severity, on asset quality, earnings performance. The results of the credit stress test form inputs to the capital planning process under ICAAP. The purpose of the Pillar 2 credit stress testing is to examine, in a rigorous and forward-looking manner, the possible events or changes in market conditions that could adversely impact the Group and to develop the appropriate action plan.
Sensitivity and scenario analyses	The Bank also conducts multiple independent sensitivity analyses and credit portfolio reviews based on various scenarios. The intent of these analyses and reviews is to identify vulnerabilities for the purpose of developing and executing mitigating actions.

E Process, System and Reports

The Bank constantly invests in systems to support risk monitoring and reporting for its Institutional Banking and Consumer Banking businesses.

The end-to-end credit process is constantly being reviewed and improved through various front-to-back initiatives involving the business units, the operations unit, the RMG and other key stakeholders. Day-to-day monitoring of credit exposures, portfolio performance and the external environment factors potentially affecting credit risk profiles is key to the Bank's philosophy of effective credit risk management.

In addition, risk reporting on credit trends, which may include industry analysis, early warning alerts and significant weak credits, is submitted to the various credit committees, allowing key strategies and action plans to be formulated and evaluated.

Credit control functions also ensure that any credit risks taken complies with the credit risk policy documents. These functions ensure that approved limits are activated, credit excesses and policy exceptions are appropriately endorsed, compliance with credit standards is carried out and covenants established by are monitored.

Independent risk management functions that report to the CRO are jointly responsible for developing and maintaining a robust credit stress testing programme. These units oversee the implementation of credit stress tests as well as the analysis of the results, of which management, various risk committees and regulators are informed.

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

F Collateral received

Where possible, the Bank takes collateral as a secondary source. This includes but not limited to cash, marketable securities, property, trade receivables, guarantee, inventory and equipment and other physical and/or financial collateral. The Bank may also take fixed and floating charges on the assets of borrowers.

Policies are in place to determine the eligibility of collateral for credit risk mitigation. These include setting criteria for the appointment of valuers and requiring specific collaterals to meet minimum requirements in order to be considered as effective risk mitigants. The Bank's collateral is generally diversified and periodic valuations of collateral are required. Real estate constitutes the bulk of the Bank's collateral, while marketable securities and cash are immaterial.

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

Collateral held against derivatives generally consists of cash in major currencies and highly rated government or quasi-government bonds. Exceptions may arise in certain countries, where due to domestic capital markets and business conditions, the Bank may be required to accept less highly rated or liquid government bonds and currencies. Reverse repo-transactions are generally traded with large institutions with reasonably good credit standing. The Bank takes haircuts against the underlying collateral of these transactions that commensurate with collateral quality to ensure credit risks are adequately mitigated.

In times of difficulty, the Bank will review the customer's specific situation and circumstances to assist them in restructuring their repayment liabilities. However, should the need arise, disposal and recovery processes are in place to dispose the collateral held by the Bank. The Bank also maintains a panel of agents and solicitors that helps it to dispose of non-liquid assets and specialised equipment quickly.

G Other Risk Mitigants

The Bank accepts guarantees as credit risk mitigants. Internal requirements for considering the eligibility of guarantors for credit risk mitigation are in place.

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit risk losses

Expected Credit Loss (ECL)

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

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

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

Stage 1: Financial instruments are classified as Stage 1 at initial recognition and will remain under Stage 1 unless they experience a significant increase in credit risk or become credit-impaired. 12-month ECL is recognised for these instruments.

Stage 2: Financial instruments which experience a significant increase in credit risk (SICR) subsequent to initial recognition, but are not yet credit-impaired, will migrate from Stage 1 to Stage 2. Lifetime ECL is recognised for these instruments.

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

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

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

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

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

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit risk losses (continued)

Expected Credit Loss (ECL) (continued)

Stage 3 – Financial instruments that become credit-impaired with evidence of default, i.e. non-performing assets, are transferred to Stage 3.

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

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

Measurement of ECL

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

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

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

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

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit risk losses (continued)

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

The Bank leverages the models and parameters implemented under the Basel II Internal Ratings-Based (IRB) framework where possible, with appropriate modifications to meet the requirements of new CASs of financial instruments.

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

For the wholesale portfolios, credit cycle indices (CCIs) have been developed for the key industries and geographies. CCIs are summary measures that depict broad-based, section-wide changes in credit risk, which are constructed by comparing the median expected default frequency of firms within each segment against a long-run average. Expected default frequency is in turn a market-based point-in-time default risk measure driven by the market value of firms' assets, asset volatility and leverage. CCIs are then used as inputs to convert the generally more through-the-cycle PDs derived from Basel models / parameters into the point-in-time equivalents by adding the unaccounted portion of cyclical variations, as well as to incorporate forward-looking information. LGDs are determined using historical loss data, which are adjusted for both the latest and forecasted recovery experience.

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

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

Expert credit judgement and post model adjustments

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

- assignment of credit risk ratings and determination of whether exposures should be placed on credit watchlists;
- assessment of whether a significant increase in credit risk has occurred;
- selecting and calibrating the ECL models such as CCIs;
- determining the expected remaining maturity of revolving products;
- determination of the forecast loss rates;
- application of thematic overlays based on emerging risk themes where potential risks may not be fully captured in the underlying modelled ECL. Such top-down additional modelled ECL was quantified by means of applying conditional probabilities on more severe scenarios materialising from emerging risk themes;
- Adjustments made as part of the post-model adjustment framework (elaborated below).

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit risk losses (continued)

Post-model Adjustment based on regulatory guidance

The bank also assessed the adequacy of ECL amount in accordance with the relevant guidance issued by CBIRC. The ECL amount was the Bank's best estimate of the possible outcomes as at 31 December 2021.

Sensitivity of ECL calculation to macroeconomic variables

The Bank assessed ECL sensitivity for the wholesale and retail portfolios to changes in the allocation of exposures between Stages 1 and 2. ECL is estimated to reduce by RMB 110,964,347 should all the exposures in Stage 2 return to Stage 1 and were assigned a lower 12-month ECL instead of lifetime ECL. The impact reflects the higher PDs ascribed to Stage 2 exposures in addition to the recognition of lifetime instead of 12-month ECL.

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

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

I The maximum credit risk exposure of collateral and other credit mitigation measures is not taken into account

(i) Financial instruments included in impairment assessment

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. As at 31 December 2021, the risks of all financial instruments included in the impairment assessment of the Bank are classified as follows:

	31 December 2021							
	Book Value (Excluded interest receivable)				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On-balance sheet item								
Deposits with central bank	11,922,806,515	-	-	11,922,806,515	(2,032,444)	-	-	(2,032,444)
Deposits with other banks	1,464,044,418	-	-	1,464,044,418	(74,112)	-	-	(74,112)
Placements with financial institutions	35,503,258,999	90,000,000	-	35,593,258,999	(14,643,350)	(1,389,625)	-	(16,032,975)
Loans and advances to customers	47,484,651,751	1,397,776,018	331,510,767	49,213,938,536	(429,378,449)	(448,482,684)	(59,481,138)	(937,342,271)
Other debt instruments	10,565,283,344	-	-	10,565,283,344	(3,085,479)	-	-	(3,085,479)
Debt instruments	7,606,662,605	-	-	7,606,662,605	(1,738,871)	-	-	(1,738,871)
Financial assets purchased under resale agreements	1,237,405,476	-	-	1,237,405,476	-	-	-	-
Other assets	-	-	20,566,151	20,566,151	-	-	(18,037,978)	(18,037,978)
Total	115,784,113,108	1,487,776,018	352,076,918	117,623,966,044	(450,952,705)	(449,872,309)	(77,519,116)	(978,344,130)
Loan commitments and financial guarantees	15,827,387,081	102,492,200	-	15,929,879,281	(10,097,743)	(79,617)	-	(10,177,360)

As shown above, 42% of the total on-balance-sheet maximum exposure is derived from Loans and advances to customers (31 December 2020: 39%).

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

I The maximum credit risk exposure of collateral and other credit mitigation measures is not taken into account (continued)

(i) Financial instruments included in impairment assessment (continued)

	31 December 2020							
	Book Value (Excluded interest receivable)				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On-balance sheet item								
Deposits with central bank	10,593,154,633	-	-	10,593,154,633	(2,090,446)	-	-	(2,090,446)
Deposits with other banks	3,513,335,983	-	-	3,513,335,983	(224,119)	-	-	(224,119)
Placements with financial institutions	26,281,658,645	135,000,000	-	26,416,658,645	(12,883,372)	(26,315,832)	-	(39,199,204)
Loans and advances	39,960,504,981	1,650,353,537	483,313,853	42,094,172,371	(491,470,074)	(341,799,398)	(52,377,516)	(885,646,988)
Other debt instruments	11,745,477,183	-	-	11,745,477,183	(3,293,421)	-	-	(3,293,421)
Debt instruments	5,651,282,774	-	-	5,651,282,774	(1,223,152)	-	-	(1,223,152)
Financial assets purchased under resale agreements	5,595,857,245	-	-	5,595,857,245	(410,368)	-	-	(410,368)
Other assets	-	-	20,481,616	20,481,616	-	-	(20,478,908)	(20,478,908)
Total	103,341,271,444	1,785,353,537	503,795,469	105,630,420,450	(511,594,952)	(368,115,230)	(72,856,424)	(952,566,606)
Loan commitments and financial guarantees	12,614,906,428	424,852,103	200,000,000	13,239,758,531	(17,777,404)	(2,400,133)	(100,000,000)	(120,177,537)

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

I The maximum credit risk exposure of collateral and other credit mitigation measures is not taken into account (continued)

(ii) Financial instruments not included in the impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	31 December 2021	31 December 2020
Trading assets	12,169,677,944	9,685,955,361
Derivative assets	7,317,006,782	15,570,871,048
Financial assets purchased under resale agreements	297,029,393	-
Total	19,783,714,119	25,256,826,409

J Loans and advances to customers

(i) Loans and advances to customers impaired

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it become more likely that the Bank will take possession of collateral to mitigate potential credit losses. The collateral value for retail loans sufficiently covers the outstanding exposure at year end. Loans and advances to customers that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

31 December 2021

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Corporate loans	222,664,942	17,686,776	204,978,166	16,495,000
Retail loans	108,845,825	41,794,362	67,051,463	634,930,000
Total	331,510,767	59,481,138	272,029,629	651,425,000

31 December 2020

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Corporate loans	331,041,513	24,763,485	306,278,028	54,856,000
Retail loans	152,272,340	27,614,031	124,658,309	597,220,000
Total	483,313,853	52,377,516	430,936,337	652,076,000

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

J Loans and advances to customers (continued)

(ii) Renegotiated loans

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 at 31 December 2021, the renegotiated loans held by the Bank is zero(31 December 2020: zero).

K Financial investments

The tables below analyse the Bank's financial investments by issuers' credit rating:

	Trading assets	**Other debt instruments**	**Debt instruments**
31 December 2021			
RMB bonds:			
Rated as AAA	3,366,440,583	2,860,149,532	68,843,600
Rated as A+	6,041,949,728	7,299,600,546	7,537,819,005
Rated as A	99,703,189	-	-
Rated as A-	205,400,941	-	-
Unrated:			
Local government debt securities	20,835,409	-	-
			-
Overseas bonds:			-
Rated as A+	-	361,315,480	-
Rated as A	132,201,017	-	-
Rated as A-	141,963,708	-	-
Rated as BBB+ and below	1,465,347,785	44,217,786	-
Unrated:			
Corporate debt securities	686,163,473	-	-
Banks and other financial institutions debt securities	9,672,111	-	-
Add: Interest Receivable	-	180,159,212	64,665,632
Less: ECL allowance	-	-	(1,738,871)
Total	12,169,677,944	10,745,442,556	7,669,589,366

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

K Financial investments (continued)

	Trading assets	Other debt instruments	Debt instruments
31 December 2020			
RMB bonds:			
Rated as AAA	2,513,133,276	2,307,502,683	-
Rated as A+	5,765,995,740	8,459,788,762	5,651,282,774
Rated as A and below	27,674,247	-	-
Overseas bonds:			
Rated as A+	-	978,185,738	-
Rated as A	67,958,141	-	-
Rated as BBB+ and below	849,713,505	-	-
Unrated:			
Corporate debt securities	461,480,452	-	-
Add: Interest Receivable	95,372,330	217,539,112	50,480,205
Less: ECL allowance	-	-	(1,223,152)
Total	9,781,327,691	11,963,016,295	5,700,539,827

51.3 Market risk

Market Risk is a risk arising from adverse changes in interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, as well as related factors. The Bank's exposure to market risk is categorized into:

- Trading portfolios: Arising from positions taken for (i) market-making, (ii) client-facilitation and (iii) benefiting from market opportunities.

- Non-trading portfolios: Arising from (i) positions taken to manage the interest rate risk of Institutional Banking and Consumer Banking assets and liabilities; (ii) debt securities comprising of investments held for yield and / or long-term capital gains; and (iii) structural foreign exchange risk arising mainly from the Bank's USD capital.

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

A Market Risk Management

China BRMC establishes the Bank's risk appetite and framework for market risk and China MLRC serves as the executive forum for overseeing various aspects of market risk taking including limit management, policies, processes, methodologies and systems and report to China Risk Exco.

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

51 RISK MANAGEMENT (continued)

51.3 Market risk (continued)

A Market Risk Management (continued)

Policies

The Market Risk Management Policy sets the overall approach towards market risk management. This policy is supplemented with standards and guidelines, which facilitate the identification, measurement, control, monitoring and reporting of market risk in a consistent manner. They also set out the overall approach, requirements and controls governing market risk stress testing of the Bank.

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

Risk Methodologies

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

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

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

For back-testing, VaR at the 99% level of confidence and over a one-day holding period is used. The Bank adopts the standardized approach to compute market risk regulatory capital for the trading book positions. As such, VaR back-testing does not impact the Bank’s regulatory capital for market risk.

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

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

ES and Net Interest Income (NII) Variability are the key risk metrics used to manage the Bank’s assets and liabilities. Credit risk arising from loans and receivables is managed under the credit risk management framework. Interest rate risk in the banking book (IRRBB) arises from mismatches in the interest rate profiles of assets, liabilities and capital instruments. Behavioral assumptions are applied when managing the interest rate risk of non-maturity deposits. The Bank measures IRRBB on a weekly and monthly basis.

51 RISK MANAGEMENT (continued)

51.3 Market risk (continued)

A Market Risk Management (continued)

Processes, Systems and Reports

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

The RMG Market and Liquidity Risk unit monitors, controls and analyses the Bank's market risk daily.

The main market risk factors affecting the Bank's trading portfolios in 2021 were RMB interest rate, USD/RMB foreign exchange, credit spread and USD/RMB FX Option.

B Market Risk in 2021

The following table shows the period-end, average, high and low diversified ES, and ES by risk class of the trading portfolios.

	1 Jan 2021 to 31 Dec 2021			
In RMB $ millions[a]	**As at 31 Dec 2021**	**Average**	**High**	**Low**
Diversified	8.65	11.63	19.81	6.82
Interest Rates	8.64	11.51	21.60	5.42
Foreign Exchange	2.60	4.63	11.88	0.85
Equity	-	-	-	-
Credit Spread	4.08	7.92	17.89	0.51
Commodity	-	0.17	3.05	-

	1 Jan 2020 to 31 Dec 2020			
In RMB $ millions	**As at 31 Dec 2020**	**Average**	**High**	**Low**
Diversified	10.21	10.69	20.22	6.52
Interest Rates	8.45	12.19	23.18	4.48
Foreign Exchange	4.65	4.93	13.18	1.54
Equity	-	-	-	-
Credit Spread	7.12	9.23	19.24	5.78
Commodity	1.73	2.95	5.27	-

[a]The table is computed in Singapore dollars and translated into RMB using the Bank's PSGL rates for presentation purpose.

The Bank's trading portfolios didn't experience backtesting exception in 2021.

51 RISK MANAGEMENT (continued)

51.3 Market risk (continued)

B Market Risk in 2021 (continued)

In 2021, the key market risk drivers of the Bank's non-trading portfolios were interest rates (RMB and USD) and foreign exchange.

The Net Interest Income (NII) variability of the banking book is assessed under various rate scenarios to determine the impact of interest rate movements on future earnings. Simulating using a 100 basis points parallel upward or downward shift in yield curves on the Bank's banking book exposure as of 31 Dec 2021, NII is estimated to increase by RMB 135 million and decrease by RMB 233 million respectively.

Foreign exchange risk in the non-trading portfolios was primarily from structural foreign exchange position arising from unconverted USD capital.

C IBOR Reform

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY London Interbank Offered Rate (LIBOR) settings and the one-week and two-month USD LIBOR settings had discontinued after 31 December 2021. The remaining USD LIBOR settings will discontinue after 30 June 2023. In Singapore, as announced by the Steering Committee for SOR & SIBOR Transition to SORA (SC-STS) on 31 March 2021, Singapore Swap Offer Rate (SOR), which relies on USD LIBOR in its computation, will similarly be discontinued immediately after 30 June 2023 across all tenor settings.

The Bank's main interest rate benchmark exposures are USD LIBOR and SOR. USD LIBOR will be replaced by USD Secured Overnight Financing Rate (SOFR) while the replacement benchmark rate for SOR is Singapore Overnight Rate Average (SORA).

A DBS Group Steering Committee was established in 2019 to manage the impact of Interest Rate Benchmark Reform on the DBS Group. Oversight of Interest Rate Benchmark Reform is provided by the DBS Group Executive Committee and the Board Risk Management Committee.

A China project team was established in 2021 and co-ordinates closely with the DBS Group Steering Committee to manage the impact of IBOR Reform on the Bank. As at 31 December 2021, changes required to systems, processes and models have been identified and have been substantially implemented. Contracts with interest rates that are pegged to JPY LIBOR have been remediated. For contracts referencing SOR or USD LIBOR settings, the remediation is ongoing. The exposure of the Bank's business linked to LIBOR is relatively small, and the impact of the IBOR reform to interest rate risk and operations is controllable.

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.3 Market risk (continued)

C IBOR Reform (continued)

Exposures impacted by IBOR Reform

The table below provides an overview of significant IBOR-related exposure by interest rate benchmarks.

- The exposures disclosed are for positions with contractual maturities after the announced IBOR cessation dates[(a)].
- Non-derivative financial instruments are presented on the basis of their carrying amounts.
- Derivative financial instruments are presented by using their notional contract amounts.

RMB	SGD SOR	USD LIBOR	Total
Non-derivative financial assets[(b)]	2,458,884	45,051,949	47,510,833
Derivatives (notional)	2,456,816	2,028,233,792	2,030,690,608

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

(b) Relates mainly to “loans and advances to customers”

51.4 Liquidity risk

The Bank’s liquidity risk arises from its obligations to honour withdrawals of deposits, repayments of borrowed funds at maturity and the commitments to extend loans to the customers. The Bank seeks to manage its liquidity to ensure that its liquidity obligations will continue to be honoured under normal as well as adverse circumstances.

A Liquidity Risk Management

China MLRC is the primary party responsible for liquidity risk management based on the Liquidity Risk Management Policy approved by China BRMC and reports to China Risk Exco.

The Bank’s Assets and Liabilities Committee regularly reviews balance sheet composition, growth in loans and deposits, utilization of wholesale funding, momentum in business activities, market competition, economic outlook, market conditions and other factors that may affect liquidity in the continual refinement of the Bank’s funding strategy.

The Bank’s approach to liquidity risk management comprises the following building blocks:

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

A Liquidity Risk Management (continued)

Policies

The Liquidity Risk Management Policy sets the Bank's overall approach towards liquidity risk management and describes the range of strategies the Bank employs to manage its liquidity. These strategies include maintaining an adequate counterbalancing capacity to address potential cashflow shortfalls and having diversified sources of liquidity.

The Bank's counter-balancing capacity includes liquid assets, the capacity to borrow from the money markets (including the issuance of Negotiable Certificate of Deposit (NCD) and Financial Bond) and forms of managerial interventions that improve liquidity. In the event of a potential or actual crisis, the Bank has in place a set of liquidity contingency and recovery plans to ensure that the Bank maintains adequate liquidity.

The Liquidity Risk Management Policy is supported by Standards that establish the detailed requirements for liquidity risk identification, measurement, reporting and control within the Bank. The set of Policies, Standards and supporting guides communicate these baseline requirements to ensure a consistent application throughout the Bank.

Risk Methodologies

The primary measure used to manage liquidity within the tolerance defined by China BRMC is cash flow maturity mismatch analysis. This form of analysis is performed on a regular basis under normal and adverse scenarios. It assesses the adequacy of the Bank's counterbalancing capacity to fund or mitigate any cash flow shortfalls that may occur as forecasted in the cash flow movements across successive time bands. To ensure that liquidity is managed in line with the Bank's Risk Appetite, core parameters such as the types of scenarios, the survival period and the minimum level of liquid assets, are pre-specified for monitoring and control on a bank-wide basis. Any occurrences of forecasted shortfalls that cannot be covered by the counterbalancing capacity will be escalated to the relevant committees for evaluation and action.

Liquidity risk stress testing is performed regularly using cash flow maturity mismatch analysis and covers adverse scenarios including general market and idiosyncratic stress scenarios. Stress tests assess the Bank's vulnerability when liability run-offs increase, asset rollovers increase and/or liquid asset buffers decrease. In addition, ad hoc stress tests are performed as part of the Bank's ICAAP exercises.

Liquidity risk control measures, such as liquidity-related ratios and balance sheet analysis, are complementary tools for cash flow maturity mismatch analysis, and they are performed regularly to obtain deeper insights and finer control over the Bank's liquidity profile. The liquidity risk control measures also include concentration measures regarding top depositors, wholesale borrowing and swapped funds.

Processes, Systems and Reports

Robust internal control processes and systems support the Bank's overall approach in identifying, measuring, aggregating, controlling and monitoring liquidity risk in the Bank.

The RMG Market and Liquidity Risk unit manages the day-to-day liquidity risk monitoring, control reporting and analysis.

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

B Liquidity Risk at 31 December 2021

The Bank actively monitors and manages the liquidity profile through cash flow maturity mismatch analysis. In forecasting cash flow under the analysis, behavioral profiling is necessary in cases where a product has indeterminate maturity, or the contractual maturity does not realistically reflect the expected cash flow.

The table below shows behavioral net and cumulative maturity mismatch between assets and liabilities over a one-year period, in a normal scenario without incorporating growth projections. The Bank's liquidity was observed to remain adequate in the maturity mismatch analysis.

RMB in million[(a)]	Less than 7 days	1 week to 1 month	>1 month to 3 months	>3 months to 6 months	> 6 months to 1 year
As at 31 Dec 2021[(b)]					
Net liquidity mismatch	32,363	(85)	4,524	1,496	3,270
Cumulative mismatch	32,363	32,278	36,802	38,299	41,568
As at 31 Dec 2020[(b)]					
Net liquidity mismatch	30,280	30	3,075	4,587	(4,294)
Cumulative mismatch	30,280	30,310	33,386	37,972	33,678

(a) Positive indicates a position of liquidity surplus. Negative indicates a liquidity shortfall that has to be funded.

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

(c) The table is computed in US dollars and translated into Renminbi using the Bank's PSGL rates for presentation purpose.

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities

The table below presents the contractual undiscounted cash flows of the Bank under financial assets and liabilities by remaining contractual maturities at the balance sheet date.

	Overdue	No specific maturity	On Demand	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2021									
Financial Liabilities									
Deposits from other banks and financial institutions	-	-	12,678,186,538	1,034,061,390	923,841,996	2,590,617,992	687,442,000	-	17,914,149,916
Borrowing from other banks	-	-	-	4,724,888,783	5,781,110,479	1,386,151,971	-	-	11,892,151,233
Due to customers	-	-	19,182,567,629	40,748,603,887	4,909,240,958	6,724,295,430	1,516,000,533	-	73,080,708,437
Debt securities issued	-	-	-	1,230,000,000	3,974,000,000	2,710,000,000	2,376,000,000	-	10,290,000,000
Derivative liabilities	-	7,286,003,810	-	-	-	-	-	-	7,286,003,810
Financial assets sold under repurchase agreements	-	-	-	5,924,774,600	-	-	-	-	5,924,774,600
Others	-	-	-	1,269,350,053	-	-	-	-	1,269,350,053
Total financial liabilities	-	7,286,003,810	31,860,754,167	54,931,678,713	15,588,193,433	13,411,065,393	4,579,442,533	-	127,657,138,049

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial Assets									
Cash and deposits with central bank	-	5,382,658,672	6,571,675,109	-	-	-	-	-	11,954,333,781
Deposits with other banks	-	-	1,464,044,418	-	-	-	-	-	1,464,044,418
Placements with financial institutions	-	-	-	13,203,806,913	6,478,983,961	14,629,577,013	2,041,789,531	-	36,354,157,418
Trading assets	-	-	-	104,781,114	279,748,453	3,111,705,582	7,392,971,554	2,334,619,307	13,223,826,010
Loans and advances to customers	485,450,384	-	-	5,518,717,769	12,084,825,840	16,399,515,051	15,783,246,212	3,765,112,182	54,036,867,438
Other debt instruments	-	-	-	10,050,000	271,100,012	629,552,452	9,108,695,836	1,668,135,000	11,687,533,300
Debt instruments	-	-	-	-	6,800,000	215,862,934	3,468,092,534	5,363,641,000	9,054,396,468
Derivative assets	-	7,317,006,782	-	-	-	-	-	-	7,317,006,782
Financial assets purchased under resale	-	-	-	-	-	-	-	-	-
Others	20,566,151	-	-	732,346,886	-	574,333,064	-	-	1,327,246,101
Total financial assets	506,016,535	12,699,665,454	8,035,719,527	19,569,702,682	19,121,458,266	35,560,546,096	37,794,795,667	13,131,507,489	146,419,411,716
Net cash flows	506,016,535	5,413,661,644	(23,825,034,640)	(35,361,976,031)	3,533,264,833	22,149,480,703	33,215,353,134	13,131,507,489	18,762,273,667

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2020									
Financial Liabilities									
Deposits from other banks and financial institutions	-	-	11,391,305,187	1,034,814,242	-	1,405,502,811	1,150,054,847	-	14,981,677,087
Borrowing from other banks	-	-	-	4,807,908,057	5,256,210,572	7,959,895,503	-	-	18,024,014,132
Due to customers	-	-	19,680,373,376	32,523,187,829	4,001,975,941	6,912,484,250	1,325,779,396	-	64,443,800,792
Debt securities issued	-	-	-	-	390,000,000	3,136,500,000	-	-	3,526,500,000
Derivative liabilities	-	16,000,963,644	-	-	-	-	-	-	16,000,963,644
Financial assets sold under repurchase agreements	-	-	-	4,322,404,995	-	-	-	-	4,322,404,995
Others	-	-	-	274,663,710	-	-	-	-	274,663,710
Total financial liabilities	-	16,000,963,644	31,071,678,563	42,962,978,833	9,648,186,513	19,414,382,564	2,475,834,243	-	121,574,024,360

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial Assets									
Cash and deposits with central bank	-	6,645,405,753	3,985,279,570	-	-	-	-	-	10,630,685,323
Deposits with other banks	-	-	1,422,685,983	90,650,000	-	2,031,359,611	-	-	3,544,695,594
Placements with financial institutions	-	-	-	5,563,706,010	1,814,166,993	17,683,878,704	2,044,887,740	-	27,106,639,447
Trading assets	-	-	-	126,373,940	785,602,477	3,088,881,389	5,897,832,805	478,685,720	10,377,376,331
Loans and advances to customers	586,600,957	-	-	2,825,838,138	8,215,521,295	13,122,001,714	17,540,819,238	4,562,437,858	46,853,219,200
Other debt instruments	-	-	-	1,317,120,000	66,557,500	3,719,910,400	7,370,273,000	104,012,000	12,577,872,900
Debt instruments	-	-	-	-	16,281,000	149,942,000	1,130,608,000	5,465,834,000	6,762,665,000
Derivative assets	-	15,570,871,048	-	-	-	-	-	-	15,570,871,048
Financial assets purchased under resale		-	-	4,943,188,983	653,042,824	-	-	-	5,596,231,807
Others	20,481,616	-	-	2,338,654,010	-	202,383,801	2,708	-	2,561,522,135
Total financial assets	607,082,573	22,216,276,801	5,407,965,553	17,205,531,081	11,551,172,089	39,998,357,619	33,984,423,491	10,610,969,578	141,581,778,785
Net cash flows	607,082,573	6,215,313,157	(25,663,713,010)	(25,757,447,752)	1,902,985,576	20,583,975,055	31,508,589,248	10,610,969,578	20,007,754,425

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy

The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

The fair value hierarchy accords the highest level to observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities and the lowest level to unobservable inputs. The fair value measurement of each financial instrument is categorised in accordance with the same level of the fair value hierarchy as the input with the lowest level that is significant to the entire measurement.The levels of inputs are defined as follows:

- Level 1 – Financial instruments that are valued using quoted prices in active markets are classified as Level 1 within the fair value hierarchy.

- Level 2 –Where fair value is determined using quoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank will determine the fair value based on valuation techniques that use market parameters as inputs including but not limited to yield curves, volatilities and foreign exchange rates.

- Level 3 –The Bank classifies financial instruments as Level 3 when there is reliance on unobservable market parameters whether used directly to value a financial asset or liability, or used as inputs to a valuation model, attributing to a significant contribution to the instrument value. These would include all input parameters which are derived from historical data, for example, asset correlations or certain volatilities.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value

31 December 2021

	Level 1	Level 2	Level 3	Total
FVTPL				
- Trading assets	-	12,119,684,152	49,993,792	12,169,677,944
- Derivative assets	-	7,317,006,782	-	7,317,006,782
- Financial assets purchased under resale agreements	-	297,029,393	-	297,029,393
FVOCI - Other debt instruments	-	10,745,442,556	-	10,745,442,556
Total Assets	-	30,479,162,883	49,993,792	30,529,156,675
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(7,286,003,810)	-	(7,286,003,810)
- Financial assets sold under repurchase agreements	-	(5,773,509,626)	-	(5,773,509,626)
Total Liabilities	-	(13,059,513,436)	-	(13,059,513,436)

31 December 2020

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading assets	-	9,663,958,032	21,997,329	9,685,955,361
- Derivatives assets	-	15,570,871,048	-	15,570,871,048
Other debt instruments	-	11,963,016,295	-	11,963,016,295
Total Assets	-	37,197,845,375	21,997,329	37,219,842,704
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(16,000,963,644)	-	(16,000,963,644)
- Financial assets sold under repurchase agreements	-	(3,820,308,074)	-	(3,820,308,074)
Total Liabilities	-	(19,821,271,718)	-	(19,821,271,718)

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy (continued)

(b) Movement of level 3 instruments

	31 December 2020	Purchase	Net gains/(losses) arising from trading activities	31 December 2021	Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2021—Unrealised losses
Trading assets	21,997,329	50,000,000	(22,003,537)	49,993,792	(22,003,537)

	31 December 2019	Purchase	Net gains/(losses) arising from trading activities	31 December 2020	Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2020—Unrealised gains
Trading assets	20,012,782	-	1,984,547	21,997,329	1,984,547

As at 31 December 2021, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) included corporate debt securities.

There are limited inter-relationships between unobservable inputs as the financial instruments are usually categorised as Level 3 because of a single unobservable input. The main valuation technique of corporate debt securities was discounted cash flows and the unobservable input of corporate debt securities was credit spreads.

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy (continued)

(b) Movement of level 3 instruments (continued)

In assessing whether the unobservable inputs are significant to the valuation, the Bank performed sensitivity analysis based on methodologies applied for fair value adjustments. These adjustments reflect the values which the Bank estimates to be appropriate to reflect uncertainties in the inputs used (e.g. based on stress testing methodologies on the unobservable input). The methodologies used can be statistical or based on other relevant approved techniques.

The movement in fair value arising from reasonably possible changes to the significant unobservable inputs was assessed as not significant.

(c) Assets and liabilities not measured at fair value but disclose their fair value

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:

Cash and deposits with central bank , Deposits with other banks , Placements with financial institutions, Deposits from other banks and financial institutions, Borrowing from other banks, Debt securities issued, Other assets and Other liabilities,etc

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, belonging to level 2.

Loans and advances to customers

The RMB loan interest rates follows the movement of market interest rates, which are priced mainly at Loan Prime Rate (LPR). As interest rates for loans denominated in foreign currencies are generally floating rates, fair value of loans is close to carrying value.

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.

The Bank takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There are no significant transfers in or out regarding assets or liabilities measured at fair value through profit or loss and categorised within Level 3. There is no transfer between Level 1 and Level 2 for current year.

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.6 Capital management

The Bank's capital management objective is to maintain strong capital position consistent with regulatory requirements under the Capital Rules and the expectation of various stakeholders, e.g. customers, investors and rating agencies. The Board articulates this objective in the form of internal Threshold for CARs. This objective is pursued while delivering returns to shareholders and ensuring that adequate capital resources are available for business growth as well as adverse situations, taking into consideration our strategic plans and risk appetite.

A key tool for capital planning is the annual Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP, the Bank assesses its forecasted capital supply and demand relative to regulatory requirements and internal Threshold. The ICAAP has a three-year horizon and covers both Baseline and three stress scenarios of different severity pursuant to the Capital Rules. This ICAAP document is updated annually and is approved by the Board. It ensures that adequate levels of capital are maintained and planned for to support the Bank's business plans.

The table below provides the analysis of regulatory capital and the ratios of the Bank.

	31 December 2021	31 December 2020
Core Tier 1 capital adequacy ratio	12.7%	12.9%
Tier 1 capital adequacy ratio	12.7%	12.9%
Total capital adequacy ratio	15.3%	13.3%
Core Tier 1 capital	12,731,635,910	11,976,400,816
Regulatory Deductions for Core Tier 1 capital	-	-
Net core Tier 1 capital	12,731,635,910	11,976,400,816
Other Tier 1 capital	-	-
Net Tier 1 capital	12,731,635,910	11,976,400,816
Tier 2 capital	2,606,938,100	402,960,300
Total regulatory capital	15,338,574,010	12,379,361,116
Total risk-weighted assets	100,365,693,400	93,043,616,700

52 Comparative Figures

Certain comparative figures have been reclassified to conform with changes in presentation and disclosures in current year.