

DBS BANK (CHINA) LIMITED

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2022**

[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 (2023) No.20270
(Page 1 of 3)

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 2022;
- 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 2022 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
10 February 2023

Signing CPA

David Wang

DBS BANK (CHINA) LIMITED**BALANCE SHEET
AS AT 31 DECEMBER 2022**(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2022	31 December 2021
Cash and deposits with central bank	8	14,499,448,254	11,952,301,337
Deposits with other banks	9	2,137,934,473	1,463,970,306
Placements with financial institutions	10	37,379,917,251	35,910,524,739
Derivative assets	11	8,928,667,143	7,317,006,782
Financial assets purchased under resale agreements	12	-	1,534,435,900
Loans and advances to customers	13	51,091,216,239	48,560,281,490
Financial investments:			
- Trading assets	14	13,263,837,084	12,169,677,944
- Debt instruments	15	10,111,596,701	7,669,589,366
- Other debt instruments	16	14,925,396,056	10,745,442,556
Fixed assets	17	69,550,102	41,185,564
Intangible assets	18	33,882,842	30,730,479
Deferred income tax assets	19	636,540,763	625,349,769
Other assets	20	1,579,821,409	1,910,178,146
TOTAL ASSETS		154,657,808,317	139,930,674,378
LIABILITIES			
Deposits from other banks and financial institutions	21	19,650,686,018	17,893,091,023
Borrowing from other banks	22	11,768,368,261	11,874,607,358
Derivative liabilities	11	8,930,509,780	7,286,003,810
Financial assets sold under repurchase agreements	23	6,437,810,723	5,773,509,626
Due to customers	24	79,623,398,113	72,069,073,567
Trading liabilities	25	43,444,495	-
Payroll and welfare payable	26	258,740,877	207,884,478
Taxes payable	27	95,388,351	126,572,763
Provision	28	11,014,719	10,177,360
Debt securities issued	29	13,129,171,535	9,846,489,013
Other liabilities	30	1,311,650,616	2,080,898,990
TOTAL LIABILITIES		141,260,183,488	127,168,307,988
OWNER'S EQUITY			
Paid-in capital	31	8,000,000,000	8,000,000,000
Capital surplus	32	33,454,727	33,454,727
Other comprehensive income	33	(9,451,787)	52,095,967
Surplus reserve	34	566,404,095	496,723,476
General risk reserve	35	1,627,100,000	1,482,900,000
Undistributed profits	36	3,180,117,794	2,697,192,220
TOTAL OWNER'S EQUITY		13,397,624,829	12,762,366,390
TOTAL LIABILITIES AND OWNER'S EQUITY		154,657,808,317	139,930,674,378

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

CEO: Ginger Cheng
CFO: Sandra Ye
Date: 07 Feb 2023

DBS BANK (CHINA) LIMITED

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

DBS BANK (CHINA) LIMITED
**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2022	2021
Interest income	37	3,869,048,074	3,525,753,854
Interest expense	37	(2,047,608,664)	(1,775,271,975)
Net interest income		<u>1,821,439,410</u>	<u>1,750,481,879</u>
Fee and commission income	38	257,370,277	398,947,082
Fee and commission expense	38	(63,786,668)	(73,208,176)
Net fee and commission income		<u>193,583,609</u>	<u>325,738,906</u>
Investment income	39	393,765,861	506,635,653
Fair value gains	40	120,648,078	89,360,931
Exchange gains	41	499,931,476	236,956,357
Other business income	42	25,492,509	24,100,586
Losses on disposal of assets		-	(70,917)
Other income	43	4,217,488	8,788,977
Operating income		<u>3,059,078,431</u>	<u>2,941,992,372</u>
Tax and levies		(22,886,136)	(21,075,142)
General and administrative expenses	44	(1,959,036,821)	(1,814,493,602)
Credit impairment losses	45	(193,271,845)	(212,956,113)
Other business expense	42	(14,573,772)	(11,994,458)
Operating expense		<u>(2,189,768,574)</u>	<u>(2,060,519,315)</u>
Operating profit		<u>869,309,857</u>	<u>881,473,057</u>
Non-operating income		4,039,841	6,066,893
Non-operating expense		(3,268,019)	(507,732)
Total profit		<u>870,081,679</u>	<u>887,032,218</u>
Corporate Income tax	46	(173,275,486)	(151,911,133)
Net profit		<u>696,806,193</u>	<u>735,121,085</u>
Other comprehensive income, net of tax	33	<u>(61,547,754)</u>	<u>50,851,749</u>
Other comprehensive income which will be reclassified to income statement subsequently			
- Gains or losses arising from changes in fair value of other debt instruments		(61,670,121)	53,879,275
- Credit impairment losses movement of other debt instruments		(175,027)	(155,957)
- Cash flow hedge reserve		297,394	(2,871,569)
Total comprehensive income		<u>635,258,439</u>	<u>785,972,834</u>

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

DBS BANK (CHINA) LIMITED
**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2022	2021
1 Cash flows from operating activities			
Net decrease in deposits with central bank and other banks		-	3,262,589,394
Net increase in due to customers and deposits from other banks and financial institutions	9,297,839,309		10,632,429,678
Net increase in financial assets sold under repurchase agreements	665,900,000		1,448,899,999
Net decrease in placements with financial institutions	-		181,824,346
Net increase in trading liabilities	43,363,433		-
Net decrease in financial assets purchased under resale agreements	1,443,610,741		3,947,736,043
Interest, fee and commission received	3,601,944,541		3,272,701,363
Cash received relating to other operating activities	431,749,984		2,897,649,286
Sub-total of cash inflow		<u>15,484,408,008</u>	<u>25,643,830,109</u>
Net increase in deposits with central bank and other banks	(190,862,625)		-
Net increase in loans and advances to customers	(2,704,107,644)		(7,414,901,472)
Net decrease in borrowing from other banks	(116,886,483)		(6,175,483,593)
Net increase in placements with financial institutions	(2,362,278,925)		-
Net increase in trading assets	(1,782,394,889)		(2,086,623,146)
Interest, fee and commission paid	(1,742,401,141)		(1,611,908,460)
Cash paid to employees	(1,268,016,414)		(1,260,778,856)
Payment of taxes	(388,081,862)		(441,350,708)
Cash paid relating to other operating activities	(181,659,866)		(353,155,285)
Sub-total of cash outflow		<u>(10,736,689,849)</u>	<u>(19,344,201,520)</u>
Net cash generated from operating activities	47	<u>4,747,718,159</u>	<u>6,299,628,589</u>

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 2022**

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2022	2021
2	Cash flows from investing activities		
	Cash received from investments	4,610,854,411	9,125,125,445
	Cash received from investment income	566,168,661	544,124,628
	Sub-total of cash inflow	<u>5,177,023,072</u>	<u>9,669,250,073</u>
	Purchase of financial investments	(11,305,214,580)	(9,828,177,152)
	Cash paid for purchase of fixed assets and intangible assets	(57,946,804)	(38,426,239)
	Sub-total of cash outflow	<u>(11,363,161,384)</u>	<u>(9,866,603,391)</u>
	Net cash used in investing activities	<u>(6,186,138,312)</u>	<u>(197,353,318)</u>
3	Cash flows from financing activities		
	Cash received from debt securities issued	28,040,000,000	17,820,000,000
	Sub-total of cash inflow	<u>28,040,000,000</u>	<u>17,820,000,000</u>
	Cash payments for debt securities issued	(24,757,317,478)	(11,433,323,652)
	Cash payments for bonds interest expenses	(333,626,002)	(230,443,379)
	Cash payments for lease liabilities	(136,317,084)	(129,032,480)
	Sub-total of cash outflow	<u>(25,227,260,564)</u>	<u>(11,792,799,511)</u>
	Net cash flows generated from financing activities	<u>2,812,739,436</u>	<u>6,027,200,489</u>
4	Effect of foreign exchange rate changes on cash and cash equivalents	<u>802,022,591</u>	<u>(233,947,086)</u>
5	Net increase in cash and cash equivalents	2,176,341,874	11,895,528,674
	Add: Cash and cash equivalents at the beginning of year	<u>18,405,707,477</u>	<u>6,510,178,803</u>
6	Cash and cash equivalents at the end of year	47 <u>20,582,049,351</u>	<u>18,405,707,477</u>

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 2022**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

	Paid-in capital Note 31	Capital surplus Note 32	Other comprehensive income Note 33	Surplus reserve Note 34	General risk reserve Note 35	Undistributed profits Note 36	Total owners' equity
Balance at 31 December 2021	<u>8,000,000,000</u>	<u>33,454,727</u>	<u>52,095,967</u>	<u>496,723,476</u>	<u>1,482,900,000</u>	<u>2,697,192,220</u>	<u>12,762,366,390</u>
Comprehensive income							
Net profit	-	-	-	-	-	696,806,193	696,806,193
Other comprehensive income	-	-	(61,547,754)	-	-	-	(61,547,754)
Total comprehensive income	<u>-</u>	<u>-</u>	<u>(61,547,754)</u>	<u>-</u>	<u>-</u>	<u>696,806,193</u>	<u>635,258,439</u>
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	144,200,000	(144,200,000)	-
Transfer to surplus reserve	-	-	-	69,680,619	-	(69,680,619)	-
Balance at 31 December 2022	<u>8,000,000,000</u>	<u>33,454,727</u>	<u>(9,451,787)</u>	<u>566,404,095</u>	<u>1,627,100,000</u>	<u>3,180,117,794</u>	<u>13,397,624,829</u>
Balance at 31 December 2020	<u>8,000,000,000</u>	<u>33,462,006</u>	<u>1,244,218</u>	<u>423,211,368</u>	<u>1,450,400,000</u>	<u>2,068,083,243</u>	<u>11,976,400,835</u>
Comprehensive income							
Net profit	-	-	-	-	-	735,121,085	735,121,085
Other comprehensive income	-	-	50,851,749	-	-	-	50,851,749
Total comprehensive income	<u>-</u>	<u>-</u>	<u>50,851,749</u>	<u>-</u>	<u>-</u>	<u>735,121,085</u>	<u>785,972,834</u>
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	<u>8,000,000,000</u>	<u>33,454,727</u>	<u>52,095,967</u>	<u>496,723,476</u>	<u>1,482,900,000</u>	<u>2,697,192,220</u>	<u>12,762,366,390</u>

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

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

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 (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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2022 are in compliance with the Accounting Standards for Business Enterprises and truly and completely present the financial position as at 31 December 2022 and of the financial performance, cash flows and other information for the year then ended.

4 CRITICAL CHANGES IN ACCOUNTING POLICIES

The Ministry of Finance released the Circular on Issuing Interpretation No. 16 of Accounting Standards for Business Enterprises (Cai Kuai [2022] No. 31) in 2022. It mainly clarifies, the accounting treatment that deferred income tax related to assets and liabilities generated by a single transaction does not apply to the initial recognition exemption, the accounting treatment of the income tax impact of dividends related to financial instruments classified by the issuer as equity instruments, and the accounting treatment that the enterprise changes the cash settled share payment into equity settled. During the Bank's accounting periods, the Bank's accounting treatment of the above matters has no material difference from the interpretation of this standard, and the interpretation has no material impact 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. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

D Cash and cash equivalents

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, as well as 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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

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 substance, the discounted cash flow method and the option pricing model, etc.

(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 but 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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

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. 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.

The Bank subsequently measures all equity investments at fair value through profit or loss ("FVTPL"). Gains or losses on equity investments at FVTPL are recognised as 'Fair value gains/losses' or 'Investment income'.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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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 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:

Amortised cost:

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.

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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 'Investment income'. 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 'Investment income' 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 52.2(h).

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

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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 with the 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 trading bonds) 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.

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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 partially 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 (cash flow hedges).

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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.

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5 PRINCIPAL ACCOUNTING POLICIES (continued)

H Fixed assets

(a) Initial recognition and measurement

Fixed assets comprise office equipment and furniture as well as computers and other electronic equipments. Fixed assets shall be recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. 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	Annual depreciation rate
Office equipments and furnitures	5-10 years	0%	10%-20%
Computers and other electronic equipments	3-5 years	0%	20%-33%

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 recognized 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.

The useful life and amortization method of the intangible assets with limited useful life shall be reviewed annually and adjusted accordingly.

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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. When predicting the present value of the future cash flow of an asset, the Bank comprehensively considers the expected future cash flow, useful life and discount rate of the asset. The estimated future cash flow of an asset refers to the estimated future cash flow generated by the asset between its continued operating to final disposal.

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. If it is difficult to estimate the recoverable amount of a single asset, the recoverable amount of the asset group shall be determined by the asset group to which the asset belongs. The asset group is the smallest portfolio of assets that can independently generate cash inflows.

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.

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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 is equivalent to the separate price of the expanded portion of the lease according to the adjusted contract.

For a lease modification that is not accounted for as a separate lease, the Bank redetermines the lease term at the effective date of the lease modification, and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. For a lease modification which decreases the scope of the lease or shortens the lease term, the Bank decreases the carrying amount of the Right-of-use asset, and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. For other lease modifications which lead to the remeasurement of lease liabilities, the Bank correspondingly adjusts the carrying amounts of the Right-of-use assets.

L Provision

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 are calculated 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).

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5 PRINCIPAL ACCOUNTING POLICIES (continued)

N Fee and commission income/expense

For fees and commission income which performance obligations are at a certain point in time, the Bank recognizes income when the client obtains and consumes the economic benefits generated by the performance of the Bank. For the fee and commission income which the performance of the obligations are provided over a certain period of time, the Bank shall recognize the income according to the performance progress within that period of 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. For the temporary differences formed by the initial recognition of assets or liabilities generated in non-business merger transactions that neither affect accounting profit nor taxable income (or deductible loss) and do not result in the equivalent amount of taxable temporary difference and deductible temporary difference, the corresponding deferred income tax assets and deferred income tax liabilities are not recognized.

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5 PRINCIPAL ACCOUNTING POLICIES (continued)

O Income tax (continued)

(b) Deferred income tax (continued)

The carrying value of the deferred income tax assets on the balance sheet date should be assessed, and derecognised if the estimation of future taxable profits are not sufficient to recover. When future taxable profits are likely to be obtained sufficiently, the amount written down shall be reversed.

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, employee education costs, and short-term paid absences. The short-term employee benefits actually incurred are recognised as a liability in the accounting period in which the service is rendered by the employees with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Non-monetary benefits are 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. 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 the premiums or contributions on basic pensions and unemployment insurance, both of which are under the defined contribution plans.

The Bank's employees participate in the basic pension 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.

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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 refund, 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:

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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; (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, Tianjin, 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 practical extent, valuation 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 52.5.

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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 as well as loan commitments and financial guarantees 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 52.2(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.

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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% (2021: 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 2022	31 December 2021
Cash	33,121,665	28,806,155
Statutory deposit reserve with central bank (a)	5,543,113,204	5,379,937,561
Excess deposit reserve with central bank	8,894,754,906	6,542,868,954
Foreign exchange risk reserve with central bank (b)	27,686,982	-
Add: Interest receivable	2,622,435	2,721,111
Less: ECL allowance	(1,850,938)	(2,032,444)
Total	14,499,448,254	11,952,301,337

- (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 2022	31 December 2021
Reserve rate for deposits denominated in RMB	7.5%	8%
Reserve rate for deposits denominated in foreign currencies	6%	9%

- (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 12 October 2020.

According to the decision of the People's Bank of China dated 26 September 2022, the reserve ratio for foreign exchange risks of forward foreign exchange business will be adjusted from 0% to 20% effective from 28 September 2022.

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9 DEPOSITS WITH OTHER BANKS

	31 December 2022	31 December 2021
Deposits with other banks		
- Domestic	403,156,176	441,068,418
- Overseas	1,734,877,904	1,022,976,000
Subtotal	<u>2,138,034,080</u>	<u>1,464,044,418</u>
Less: ECL allowance	(99,607)	(74,112)
Total	<u>2,137,934,473</u>	<u>1,463,970,306</u>

10 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
Placements with banks		
- Domestic	607,353,000	2,207,084,100
- Overseas	7,246,659,700	9,653,559,450
Subtotal	<u>7,854,012,700</u>	<u>11,860,643,550</u>
Placements with non-bank financial institutions		
- Domestic	29,247,675,974	23,732,615,449
Add: Interest receivable	294,556,694	333,298,715
Less: ECL allowance	(16,328,117)	(16,032,975)
Total	<u>37,379,917,251</u>	<u>35,910,524,739</u>

Movement of ECL allowance

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	14,643,350	1,389,625	-	16,032,975
Net portfolio change	1,011,193	-	-	1,011,193
- Newly originated or purchased financial assets	1,011,193	-	-	1,011,193
- Derecognized financial assets	-	-	-	-
Remeasurements	536,249	(1,252,300)	-	(716,051)
Total net charge to income statement	1,547,442	(1,252,300)	-	295,142
Net write-offs	-	-	-	-
Exchange and other movements	-	-	-	-
Balance at 31 December 2022	16,190,792	137,325	-	16,328,117

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10 PLACEMENTS WITH FINANCIAL INSTITUTIONS (continued)

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2021	12,883,369	26,315,835	-	39,199,204
Net portfolio change	1,546,310	-	-	1,546,310
- Newly originated or purchased financial assets	1,546,310	-	-	1,546,310
- Derecognized financial assets	-	-	-	-
Remeasurements	213,671	(24,926,210)	-	(24,712,539)
Total net charge to income statement	1,759,981	(24,926,210)	-	(23,166,229)
Net write-offs	-	-	-	-
Exchange and other movements	-	-	-	-
Balance at 31 December 2021	14,643,350	1,389,625	-	16,032,975

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 2022	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	14,969,282,638	152,592,573	(154,590,737)
Foreign exchange swap	151,899,970,075	1,992,372,857	(2,119,509,875)
Foreign exchange option	59,040,577,716	331,741,042	(313,393,859)
Cross-currency swap	23,497,461,213	530,854,511	(530,191,882)
Subtotal	249,407,291,642	3,007,560,983	(3,117,686,353)
Interest rate derivatives			
Interest rate swap	959,899,576,466	1,792,686,107	(1,755,616,823)
Interest rate cap and floor	1,022,273,095	495,180	(13,043)
Subtotal	960,921,849,561	1,793,181,287	(1,755,629,866)
Other derivatives			
Equity derivatives	16,331,733,965	3,895,090,612	(3,895,042,843)
Commodity derivatives	9,798,791,176	88,081,545	(88,081,545)
Credit derivatives	9,320,477,924	144,752,716	(74,069,173)
Subtotal	35,451,003,065	4,127,924,873	(4,057,193,561)
Total	1,245,780,144,268	8,928,667,143	(8,930,509,780)

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11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

11.1 DERIVATIVE INSTRUMENTS (continued)

31 December 2021	Notional amount	Fair value	
		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)

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.

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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 2022, the Bank holds no 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	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	153,763,609	-	(2,970,313)

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:

	2022	2021
- Hedging instruments	2,970,313	(1,178,089)
- Hedged items	(2,762,972)	1,204,515
Net gains from fair value hedges	207,341	26,426

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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.

As at 31 December 2022, the Bank's net losses arising from the cash flow hedge with the amount of RMB 1.17 million (31 December 2021: 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 2022, 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 2022	31 December 2021
At amortized cost		
Bond	-	1,237,405,476
Add: Interest receivable	-	1,031
Less: ECL allowance	-	-
Subtotal	-	1,237,406,507
At FVTPL		
Bond	-	297,029,393
Total	-	1,534,435,900

13 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2022	31 December 2021
Retail loans		
- Mortgage	3,011,371,770	3,373,007,048
- Consumer finance	1,632,152,819	1,877,138,034
- Others	224,213,907	279,943,510
Subtotal	4,867,738,496	5,530,088,592
Corporate Loans		
- Loans	34,065,515,295	32,383,289,730
- Trade finance	12,545,054,452	11,042,852,966
- Discounted bills and others	265,127,413	257,707,248
Subtotal	46,875,697,160	43,683,849,944
Add: Interest receivable	306,209,543	283,685,225
Total gross loans and advances to customers	52,049,645,199	49,497,623,761
Less: ECL allowance	(958,428,960)	(937,342,271)
Net loans and advances to customers	51,091,216,239	48,560,281,490

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13 LOANS AND ADVANCES TO CUSTOMERS (continued)

(1) By industry

	31 December 2022		31 December 2021	
	Balance	%	Balance	%
Retail loans	4,867,738,496	9%	5,530,088,592	11%
Finance	13,042,054,577	25%	11,098,694,657	23%
Wholesale and retail business	8,043,122,583	16%	6,608,063,611	13%
Manufacturing	7,797,925,859	15%	7,233,465,028	15%
Real estate	7,709,119,455	15%	8,107,995,380	16%
Transportation, storage and postal	3,773,417,546	7%	4,142,439,489	8%
Information transmission, software and IT services	3,079,155,869	6%	3,178,942,763	6%
Leasing and commercial services	2,256,450,807	4%	1,588,770,735	4%
Agriculture, hunting, forestry and fishing	605,625,896	1%	523,618,594	1%
Others	568,824,568	1%	1,201,859,687	2%
Add: Interest receivable	306,209,543	1%	283,685,225	1%
Total	52,049,645,199	100%	49,497,623,761	100%

(2) By security type

	31 December 2022	31 December 2021
Collateralized	16,267,292,466	15,791,857,721
Clean	17,582,030,656	14,957,372,398
Pledged	9,446,409,019	11,614,406,580
Guaranteed	8,447,703,515	6,850,301,837
Add: Interest receivable	306,209,543	283,685,225
Total	52,049,645,199	49,497,623,761

(3) Past due loans

	31 December 2022				
	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Collateralized	288,715,011	35,349,435	23,612,270	37,043,040	384,719,756
Clean	43,725,639	34,759,686	159,310,460	-	237,795,785
Pledged	-	-	965,059	-	965,059
Total	332,440,650	70,109,121	183,887,789	37,043,040	623,480,600

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13 LOANS AND ADVANCES TO CUSTOMERS (continued)
(3) Past due loans (continued)

	31 December 2021				Total
	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	
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

(4) Movement of ECL allowance

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	429,378,449	448,482,684	59,481,138	937,342,271
Transfer to (from)	(4,416,500)	570,419	3,846,081	-
- From stage 1 to stage 2	(885,970)	885,970	-	-
- From stage 1 to stage 3	(3,662,114)	-	3,662,114	-
- From stage 2 to stage 1	131,584	(131,584)	-	-
- From stage 2 to stage 3	-	(183,967)	183,967	-
Net portfolio change	14,693,641	(33,887,132)	-	(19,193,491)
- Newly originated or purchased financial assets	58,288,311	-	-	58,288,311
- Derecognized financial assets	(43,594,670)	(33,887,132)	-	(77,481,802)
Remeasurements	145,089,929	(131,826,248)	207,155,541	220,419,222
Total net charge to income statement	155,367,070	(165,142,961)	211,001,622	201,225,731
Net write-offs	-	-	(182,247,266)	(182,247,266)
Exchange and other movements	-	-	2,108,224	2,108,224
Balance at 31 December 2022	584,745,519	283,339,723	90,343,718	958,428,960

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13 LOANS AND ADVANCES TO CUSTOMERS (continued)
(4) Movement of ECL allowance (continued)

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2021	491,470,077	341,799,395	52,377,516	885,646,988
Transfer to (from)	(2,344,114)	2,309,813	34,301	-
- From stage 1 to stage 2	(2,534,276)	2,534,276	-	-
- From stage 1 to stage 3	(29,955)	-	29,955	-
- From stage 2 to stage 1	220,117	(220,117)	-	-
- From stage 2 to stage 3	-	(4,346)	4,346	-
Net portfolio change	24,577,905	(9,838,028)	-	14,739,877
- Newly originated or purchased financial assets	49,193,818	-	-	49,193,818
- Derecognized financial assets	(24,615,913)	(9,838,028)	-	(34,453,941)
Remeasurements	(84,325,419)	114,211,504	214,582,842	244,468,927
Total net charge to income statement	(62,091,628)	106,683,289	214,617,143	259,208,804
Net write-offs	-	-	(307,123,386)	(307,123,386)
Net transfer-in	-	-	100,000,000	100,000,000
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

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14 TRADING ASSETS

Trading assets refer to debt instruments, shares and trust plan which are measured at fair value whose changes are recognized into profit or loss.

	31 December 2022	31 December 2021
Banks and other financial institutions		
debt securities	8,116,436,849	5,652,547,978
Corporate debt securities	4,029,298,582	2,927,498,598
Government securities	347,027,340	2,556,367,394
Local government debt securities	63,214,111	270,455,903
Negotiable certificates of deposit	468,782,753	355,224,674
Asset backed securities	218,441,969	407,583,397
Shares and trust plan	20,635,480	-
Total	13,263,837,084	12,169,677,944

As at 31 December 2022, trading assets amounting to RMB 6,820,000,000 were pledged as collateral (31 December 2021: RMB 6,210,000,000).

15 DEBT INSTRUMENTS

Debt instruments refer to debt instruments measured at amortised cost.

	31 December 2022	31 December 2021
Government securities	9,452,401,767	7,537,819,005
Corporate debt securities	566,874,000	-
Asset backed securities	16,854,400	68,843,600
Add: Interest receivable	77,945,186	64,665,632
Less: ECL allowance	(2,478,652)	(1,738,871)
Total	10,111,596,701	7,669,589,366

16 OTHER DEBT INSTRUMENTS

Other debt instruments refer to debt instruments measured at FVOCI.

	31 December 2022	31 December 2021
Banks and other financial institutions		
debt securities	7,592,807,269	7,423,332,895
Government securities	4,063,161,470	2,582,226,676
Negotiable certificates of deposit	2,752,579,229	-
Local government debt securities	339,375,085	559,723,773
Add: Interest receivable	177,473,003	180,159,212
Total	14,925,396,056	10,745,442,556

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17 FIXED ASSETS

	Office equipments and furnitures	Computers and other electronic equipments	Total
Cost			
At 1 January 2022	92,935,922	130,740,052	223,675,974
Additions	3,139,929	45,099,523	48,239,452
Disposals	(23,584,809)	(25,598,400)	(49,183,209)
At 31 December 2022	72,491,042	150,241,175	222,732,217
Accumulated depreciation			
At 1 January 2022	86,337,173	96,153,237	182,490,410
Charges for the year	3,144,344	16,730,570	19,874,914
Disposals	(23,584,809)	(25,598,400)	(49,183,209)
At 31 December 2022	65,896,708	87,285,407	153,182,115
Net book value			
At 31 December 2022	6,594,334	62,955,768	69,550,102
	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	14,130,870	15,615,163
Disposals	(7,705,404)	(9,753,632)	(17,459,036)
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

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18 INTANGIBLE ASSETS

	Software contracts
Cost	
At 1 January 2022	136,563,834
Additions	12,299,086
Disposals	(75,052,540)
At 31 December 2022	<u>73,810,380</u>
Accumulated amortization	
At 1 January 2022	105,833,355
Charges for the year	9,146,723
Disposals	(75,052,540)
At 31 December 2022	<u>39,927,538</u>
Net book value	
At 31 December 2022	<u>33,882,842</u>
	Software contracts
Cost	
At 1 January 2021	120,530,698
Additions	22,813,384
Disposals	(6,780,248)
At 31 December 2021	<u>136,563,834</u>
Accumulated amortization	
At 1 January 2021	103,825,471
Charges for the year	8,788,132
Disposals	(6,780,248)
At 31 December 2021	<u>105,833,355</u>
Net book value	
At 31 December 2021	<u>30,730,479</u>

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19 DEFERRED INCOME TAX ASSETS

(1) Deferred income tax assets

	31 December 2022	31 December 2021
Provision for impairment	463,076,263	473,508,308
Fair value measurement of financial instruments	3,533,306	13,209,203
Share based incentive plan not exercised	10,909,863	9,524,151
Accrued expenses and payroll	148,192,135	121,140,514
Others	10,829,196	7,967,593
Total	636,540,763	625,349,769

Deferred income taxes for transactions in PRC are calculated on all taxable temporary differences using an effective tax rate of 25% for the year ended 31 December 2022 (for the year ended 31 December 2021: 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

	2022			
	At 1 January	Recognised into profit or loss	Recognised into other comprehensive income	At 31 December
Provision for impairment	473,508,308	(10,432,045)	-	463,076,263
Fair value measurement of financial instruments	13,209,203	(30,228,618)	20,552,721	3,533,306
Share based incentive plan not exercised	9,524,151	1,385,712	-	10,909,863
Accrued expenses and payroll	121,140,514	27,051,621	-	148,192,135
Others	7,967,593	2,861,603	-	10,829,196
Total	625,349,769	(9,361,727)	20,552,721	636,540,763

	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 and payroll	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

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20 OTHER ASSETS

	31 December 2022	31 December 2021
Security deposits and guarantee deposits	815,807,635	732,346,886
Right-of-use assets (1)	495,201,524	552,405,005
Settlement receivables from customers	200,539,271	561,350,593
Receivables from related parties (Note 51 (e)(3))	38,406,481	33,548,622
Prepaid expenses	13,793,791	14,010,129
Leasehold improvement	11,886,496	5,575,772
Others	15,424,395	28,979,117
Less: ECL allowance	(11,238,184)	(18,037,978)
Total	1,579,821,409	1,910,178,146

(1) Right-of-use assets

	Office	Data center	Total
Cost			
At 1 January 2022	836,486,659	21,094,616	857,581,275
Additions	70,110,554	6,241,021	76,351,575
Decreases	(9,628,120)	-	(9,628,120)
At 31 December 2022	896,969,093	27,335,637	924,304,730
Accumulated depreciation			
At 1 January 2022	291,775,635	13,400,635	305,176,270
Additions	127,806,910	5,748,146	133,555,056
Decreases	(9,628,120)	-	(9,628,120)
At 31 December 2022	409,954,425	19,148,781	429,103,206
Net book value			
At 1 January 2022	544,711,024	7,693,981	552,405,005
At 31 December 2022	487,014,668	8,186,856	495,201,524
Lease Liabilities			
At 31 December 2022	510,884,277	8,514,671	519,398,948

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20 OTHER ASSETS (continued)

(1) Right-of-use assets (continued)

	Office	Data center	Total
Cost			
At 1 January 2021	567,860,748	21,094,616	588,955,364
Additions	450,900,115	-	450,900,115
Decreases	(182,274,204)	-	(182,274,204)
At 31 December 2021	836,486,659	21,094,616	857,581,275
Accumulated depreciation			
At 1 January 2021	276,943,642	8,933,757	285,877,399
Additions	127,106,175	4,466,878	131,573,053
Decreases	(112,274,182)	-	(112,274,182)
At 31 December 2021	291,775,635	13,400,635	305,176,270
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

As at 31 December 2022, there is no lease that is committed but not yet commenced. (31 December 2021: nil).

21 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
Deposits from banks		
- Domestic	3,544,460,207	4,773,896,037
- Overseas	1,344,402,024	1,041,705,806
Subtotal	4,888,862,231	5,815,601,843
Deposits from non-bank financial institutions		
- Domestic	14,399,767,408	11,849,307,072
- Overseas	341,012,481	188,535,787
Subtotal	14,740,779,889	12,037,842,859
Add: Interest payable	21,043,898	39,646,321
Total	19,650,686,018	17,893,091,023

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22 BORROWING FROM OTHER BANKS

	31 December 2022	31 December 2021
Borrowing from other banks		
- Domestic	5,472,834,100	3,553,403,500
- Overseas	6,243,454,188	8,279,771,271
Subtotal	<u>11,716,288,288</u>	<u>11,833,174,771</u>
Add: Interest payable	52,079,973	41,432,587
Total	<u>11,768,368,261</u>	<u>11,874,607,358</u>

23 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Analyzed by collateral type:	31 December 2022	31 December 2021
At FVTPL		
Bond	<u>6,437,810,723</u>	<u>5,773,509,626</u>
Total	<u>6,437,810,723</u>	<u>5,773,509,626</u>

24 DUE TO CUSTOMERS

	31 December 2022	31 December 2021
Current deposits		
- Corporate	23,429,519,690	24,792,776,779
- Retail	3,748,716,866	3,676,042,587
Time deposits		
- Corporate	38,931,901,658	30,182,052,078
- Retail	4,646,114,268	3,057,379,762
Structured investment products		
- Corporate	1,004,598,564	3,099,342,350
- Retail	7,574,406,221	6,458,104,900
Margin deposits		
- Corporate	40,774,011	588,690,931
Add: Interest payable	247,366,835	214,684,180
Total	<u>79,623,398,113</u>	<u>72,069,073,567</u>

25 TRADING LIABILITIES

Trading liabilities are short positions in trading bonds.

	31 December 2022	31 December 2021
Banks and other financial institutions		
debt securities	40,296,268	-
Government securities	3,148,227	-
Total	<u>43,444,495</u>	<u>-</u>

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26 PAYROLL AND WELFARE PAYABLE

	31 December 2022	31 December 2021
Short-term employee benefits	248,088,928	199,954,454
Post-employment benefits – defined contribution plans	10,651,949	7,930,024
Total	258,740,877	207,884,478

The movement of payroll and welfare payable is shown as below:

	31 December 2021	Additions	Deductions	31 December 2022
Short-term employee benefits	199,954,454	1,230,963,919	(1,182,829,445)	248,088,928
Post-employment benefits – defined contribution plans	7,930,024	83,732,022	(81,010,097)	10,651,949
Total	207,884,478	1,314,695,941	(1,263,839,542)	258,740,877

	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

27 TAXES PAYABLE

	31 December 2022	31 December 2021
Corporate income tax	18,423,464	49,631,064
Value added tax and surcharges	45,976,407	45,014,191
Withholding individual income tax and others	22,020,435	26,197,307
Withholding corporate tax	8,968,045	5,730,201
Total	95,388,351	126,572,763

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28 PROVISION

Provisions refer to ECL allowance for loan commitments and financial guarantee contracts.

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	10,097,743	79,617	-	10,177,360
Transfer to (from)	(2,901)	2,901	-	-
- From stage 1 to stage 2	(2,901)	2,901	-	-
Net portfolio change	3,002,052	(19,959)	-	2,982,093
- Newly originated or purchased financial assets	3,280,534	-	-	3,280,534
- Derecognized financial assets	(278,482)	(19,959)	-	(298,441)
Remeasurements	(3,204,264)	1,059,530	-	(2,144,734)
Total net charge to income statement	(205,113)	1,042,472	-	837,359
Net write-offs	-	-	-	-
Exchange and other movements	-	-	-	-
Balance at 31 December 2022	9,892,630	1,122,089	-	11,014,719

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28 PROVISION (continued)

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2021	17,759,606	2,417,931	100,000,000	120,177,537
Transfer to (from)	(3,801)	3,801	-	-
- From stage 1 to stage	(3,801)	3,801	-	-
Net portfolio change	934,080	-	-	934,080
- Newly originated or purchased financial assets	2,552,892	-	-	2,552,892
- Derecognized financial assets	(1,618,812)	-	-	(1,618,812)
Remeasurements	(8,592,142)	(2,342,115)	-	(10,934,257)
Total net charge to income statement	(7,661,863)	(2,338,314)	-	(10,000,177)
Net write-offs	-	-	-	-
Net transfer-out	-	-	(100,000,000)	(100,000,000)
Exchange and other movements	-	-	-	-
Balance at 31 December 2021	10,097,743	79,617	-	10,177,360

29 DEBT SECURITIES ISSUED

	31 December 2022	31 December 2021
Negotiable certificates of deposit	11,056,289,343	7,773,606,821
Tier 2 capital bond	2,000,000,000	2,000,000,000
Add: Interest payable	72,882,192	72,882,192
Total	13,129,171,535	9,846,489,013

On 19 March 2021, the Bank issued a Tier 2 capital bond 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% per annum, and its maturity date is 24 March 2031.

In 2022, the Bank issued the Negotiable Certificate of Deposit with total principal of RMB 28.04 billion, and the terms are from 1 month to 1 year, with coupon rates ranging from 1.40% to 2.75% per annum.

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30 OTHER LIABILITIES

	31 December 2022	31 December 2021
Lease liabilities	519,398,948	568,984,095
Accrued expenses	276,469,277	236,069,853
Settlement payables	366,983,061	101,452,308
Payable to overseas related parties (Note 51(e) (3))	72,001,058	1,100,508,916
Unearned commission income	35,283,474	38,990,101
Shanghai Clearing House mark-to- market margin deposits	33,555,663	28,398,728
Others	7,959,135	6,494,989
Total	1,311,650,616	2,080,898,990

31 PAID-IN CAPITAL

	31 December 2022	31 December 2021
DBS Bank Limited	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.

32 CAPITAL SURPLUS

	31 December 2021	Additions	Deductions	31 December 2022
Capital surplus recognised due to China Accounting Standard change	22,571,343	-	-	22,571,343
Others	10,883,384	-	-	10,883,384
Total	33,454,727	-	-	33,454,727

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33 OTHER COMPREHENSIVE INCOME

	31 December 2022						
	Balance sheet			Income statement			
	As at 31 December 2021	Change net of tax	As at 31 December 2022	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	51,251,897	(61,670,121)	(10,418,224)	(46,282,112)	(35,970,786)	20,582,777	(61,670,121)
- ECL on other debt instruments	2,314,109	(175,027)	2,139,082	(1,546,086)	1,312,717	58,342	(175,027)
- Effective portion of gains or losses on hedging instruments in cash flow hedges	(1,470,039)	297,394	(1,172,645)	(79,791,179)	80,176,971	(88,398)	297,394
Total	52,095,967	(61,547,754)	(9,451,787)	(127,619,377)	45,518,902	20,552,721	(61,547,754)

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33 OTHER COMPREHENSIVE INCOME (continued)

	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	104,361,528	(32,227,244)	(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)	(172,444,877)	168,588,791	984,517	(2,871,569)
Total	1,244,218	50,851,749	52,095,967	(70,858,058)	138,928,314	(17,218,507)	50,851,749

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34 SURPLUS RESERVE

	31 December 2022	31 December 2021
At 1 January	496,723,476	423,211,368
Current year appropriation	69,680,619	73,512,108
At 31 December	<u>566,404,095</u>	<u>496,723,476</u>

In accordance with the 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 69,680,619 is appropriated to the surplus reserves which is calculated as 10% of the net profit in 2022 (2021: RMB 73,512,108).

35 GENERAL RISK RESERVE

	31 December 2022	31 December 2021
At 1 January	1,482,900,000	1,450,400,000
Current year appropriation	144,200,000	32,500,000
At 31 December	<u>1,627,100,000</u>	<u>1,482,900,000</u>

On 28 January 2022, the Board of directors approved an appropriation from undistributed profits to the Bank's general risk reserve amounting to RMB 144.2 million in accordance with Circular Caijin No.20 issued on 17 April 2012. The general risk reserve after the appropriation amounts to RMB 1,627,100,000, which is 1.5% of the Bank's total risk assets as at 31 December 2021.

36 UNDISTRIBUTED PROFITS**(1) Profit distribution in the current year**

	2022	2021
At 1 January	2,697,192,220	2,068,083,243
Add: Profit for the year	696,806,193	735,121,085
Less: Surplus reserve	(69,680,619)	(73,512,108)
General risk reserve	(144,200,000)	(32,500,000)
At 31 December	<u>3,180,117,794</u>	<u>2,697,192,220</u>

(2) Profit distribution after the balance sheet date

On 7 February 2023, the Board of directors approved an appropriation of RMB 146,200,000 from undistributed profits as at 31 December 2022 to the Bank's general risk reserve in accordance with Circular Caijin No.20 issued on 17 April 2012.

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37 NET INTEREST INCOME

	2022	2021
Interest income:		
Loans and advances to customers	2,366,786,264	1,946,201,630
Deposits with other banks and placements with financial institutions	889,527,968	973,014,706
Other debt instruments	278,913,302	322,142,656
Debt instruments	251,284,573	189,754,728
Deposits with central bank	82,528,052	90,275,792
Financial assets purchased under resale agreements	7,915	4,364,342
Total	<u>3,869,048,074</u>	<u>3,525,753,854</u>
Interest expense:		
Due to customers	(1,086,644,875)	(890,338,479)
Deposits and borrowing from other banks and financial institutions	(616,697,216)	(617,550,585)
Debt securities issued	(333,626,002)	(240,872,146)
Financial assets sold under repurchase agreements	-	(13,947,919)
Lease liabilities	(10,640,571)	(12,562,846)
Total	<u>(2,047,608,664)</u>	<u>(1,775,271,975)</u>
Net interest income	<u>1,821,439,410</u>	<u>1,750,481,879</u>

38 NET FEE AND COMMISSION INCOME

	2022	2021
Fee and commission income		
Wealth management	105,982,347	227,214,689
Loan and trade related	68,937,403	82,840,679
Treasury advisory	12,000,048	15,044,009
Cash Management	27,843,667	32,508,119
Syndication	21,802,916	21,146,231
Others	20,803,896	20,193,355
Total	<u>257,370,277</u>	<u>398,947,082</u>
Fee and commission expense	<u>(63,786,668)</u>	<u>(73,208,176)</u>
Net fee and commission income	<u>193,583,609</u>	<u>325,738,906</u>

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39 INVESTMENT INCOME

	2022	2021
Trading assets	364,273,358	437,756,488
Non-foreign exchange derivative instruments	84,316,453	150,367,646
Other debt instruments	35,970,786	32,227,244
Financial assets purchased under resale and sold under repurchase agreements	(90,794,736)	(113,715,725)
Total	<u>393,765,861</u>	<u>506,635,653</u>

40 FAIR VALUE GAINS

	2022	2021
Non-foreign exchange derivative instruments	149,595,756	134,290,143
Trading assets	(30,436,127)	(40,657,051)
Trading liabilities	(81,062)	-
Financial assets purchased under resale and sold under repurchase agreements	1,569,511	(4,272,161)
Total	<u>120,648,078</u>	<u>89,360,931</u>

41 EXCHANGE GAINS

	2022	2021
Foreign exchange transactions and foreign exchange derivative instruments	<u>499,931,476</u>	<u>236,956,357</u>

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.

42 OTHER BUSINESS INCOME/EXPENSE

	2022	2021
OTHER BUSINESS INCOME		
Service charge income from related parties (Note 51(e) (2))	14,659,565	12,751,845
Others	10,832,944	11,348,741
Total	<u>25,492,509</u>	<u>24,100,586</u>
OTHER BUSINESS EXPENSE		
Cost of service charge income	<u>(14,573,772)</u>	<u>(11,994,458)</u>

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43 OTHER INCOME

	2022	2021
Government grants	4,217,488	8,788,977

44 GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Employee benefits	1,336,645,612	1,249,332,534
Short-term employee benefits	1,230,963,919	1,150,340,176
Post-employment benefits	83,732,022	77,188,079
Share Based Payment	21,949,671	21,804,279
Depreciation and amortization	164,678,714	159,454,124
Telecommunications and computers	127,298,234	114,089,945
Rental and utilities	10,120,068	11,792,346
Service charge expense to related parties (Note 51(e) (2))	101,023,270	98,202,341
Others	219,270,923	181,622,312
Total	1,959,036,821	1,814,493,602

45 CREDIT IMPAIRMENT LOSSES

	2022	2021
Deposits with central bank	(181,506)	(58,002)
Deposits with other banks	25,495	(150,007)
Placements with financial institutions	295,142	(23,166,229)
Loans and advances to customers	201,225,731	259,208,804
Financial assets purchased under resale agreements	-	(410,368)
Debt instruments	739,781	515,719
Other debt instruments	(233,369)	(207,942)
Other assets	(1,800,046)	(787,606)
Loan commitments and financial guarantees	837,359	(10,000,177)
Total ECL charge	200,908,587	224,944,192
Recovery of loans previously written-off	(7,636,742)	(11,988,079)
Total	193,271,845	212,956,113

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45 CREDIT IMPAIRMENT LOSSES (continued)
Movement of ECL allowance

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	461,050,448	449,951,926	77,519,116	988,521,490
Transfer to (from)	(4,419,401)	573,320	3,846,081	-
- From stage 1 to stage 2	(888,871)	888,871	-	-
- From stage 1 to stage 3	(3,662,114)	-	3,662,114	-
- From stage 2 to stage 1	131,584	(131,584)	-	-
- From stage 2 to stage 3	-	(183,967)	183,967	-
Net portfolio change	19,357,446	(35,296,716)	-	(15,939,270)
- Newly originated or purchased financial assets	63,230,598	-	-	63,230,598
- Derecognized financial assets	(43,873,152)	(35,296,716)	-	(79,169,868)
Remeasurements	142,121,755	(130,629,393)	205,355,495	216,847,857
Total net charge to income statement	157,059,800	(165,352,789)	209,201,576	200,908,587
Net write-offs	-	-	(187,247,014)	(187,247,014)
Exchange and other movements	-	-	2,108,224	2,108,224
Balance at 31 December 2022	618,110,248	284,599,137	101,581,902	1,004,291,287

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45 CREDIT IMPAIRMENT LOSSES (continued)
Movement of ECL allowance (continued)

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2021	529,372,356	370,515,363	172,856,424	1,072,744,143
Transfer to (from)	(2,347,915)	2,313,614	34,301	-
- From stage 1 to stage 2	(2,538,077)	2,538,077	-	-
- From stage 1 to stage 3	(29,955)	-	29,955	-
- From stage 2 to stage 1	220,117	(220,117)	-	-
- From stage 2 to stage 3	-	(4,346)	4,346	-
Net portfolio change	27,248,636	(9,838,028)	-	17,410,608
- Newly originated or purchased financial assets	53,483,360	-	-	53,483,360
- Derecognized financial assets	(26,234,724)	(9,838,028)	-	(36,072,752)
Remeasurements	(93,222,629)	86,960,977	213,795,236	207,533,584
Total net charge to income statement	(68,321,908)	79,436,563	213,829,537	224,944,192
Net write-offs	-	-	(308,776,710)	(308,776,710)
Exchange and other movements	-	-	(390,135)	(390,135)
Balance at 31 December 2021	461,050,448	449,951,926	77,519,116	988,521,490

46 CORPORATE INCOME TAX

	2022	2021
Current income tax	163,913,759	183,850,247
Deferred income tax (Note 19)	9,361,727	(31,939,114)
Total	173,275,486	151,911,133

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46 CORPORATE INCOME TAX (continued)

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

	2022	2021
Profit before income tax	870,081,679	887,032,218
Income tax calculated at applicable tax rate	217,520,420	221,758,055
Non-taxable income (1)	(84,974,242)	(75,234,727)
Non-deductible expenses	41,127,063	5,716,672
Others	(397,755)	(328,867)
Corporate income tax	173,275,486	151,911,133

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

47 NOTES TO THE STATEMENT OF CASH FLOWS**(1) Cash and cash equivalents**

	31 December 2022	31 December 2021
Cash (Note 8)	33,121,665	28,806,155
Balances with central bank other than restricted reserve deposits (Note 8)	8,894,754,906	6,542,868,954
Deposits with other banks with original terms less than three months from acquisition date	2,138,034,080	1,464,044,418
Placements with financial institutions with original terms less than three months from acquisition date	9,516,138,700	10,369,987,950
Total	20,582,049,351	18,405,707,477

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47 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

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

	Notes	2022	2021
Net profit		696,806,193	735,121,085
Adjusted by:			
Credit impairment losses	45	200,908,587	224,944,192
Depreciation and amortization	44	164,678,714	159,454,124
Interest income from debt instruments	37	(251,284,573)	(189,754,728)
Interest income from other debt instruments	37	(278,913,302)	(322,142,656)
Investment gains from other debt instruments	39	(35,970,786)	(32,227,244)
Losses on disposal of fixed assets and other long-term assets		-	70,917
Interest expenses of debt securities issued	37	333,626,002	240,872,146
Interest expenses of lease liabilities	37	10,640,571	12,562,846
Fair value gains	40	(120,648,078)	(89,360,931)
Exchange gains		(620,901,740)	(97,805,758)
Increase in deferred tax assets	46	9,361,727	(31,939,114)
Increase in operating receivables		(4,645,530,149)	(1,527,595,937)
Increase in operating payables		9,284,944,993	7,217,429,647
Net cash generated from operating activities		4,747,718,159	6,299,628,589

(3) Net increase in cash and cash equivalents:

	2022	2021
Cash and cash equivalents at the end of year	20,582,049,351	18,405,707,477
Less: cash and cash equivalents at the beginning of year	(18,405,707,477)	(6,510,178,803)
Net increase in cash and cash equivalents	2,176,341,874	11,895,528,674

(4) Cash flow related to lease

In 2022, the total lease-related cash outflow paid by the Bank is RMB 136,317,084 (2021: RMB 133,797,838), 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.

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48 COMMITMENTS AND CONTINGENT ITEMS**(1) Loan commitments and financial guarantees**

	31 December 2022	31 December 2021
Letters of credit issued	2,587,116,571	2,643,277,964
Standby letter of credit	1,688,332,519	2,464,643,239
Letters of guarantee issued	4,236,964,696	3,652,615,037
Irrevocable loan commitment	1,880,963,898	3,161,322,615
Bank acceptances	1,866,725,903	2,073,368,029
Letters of credit confirmation	4,908,492	216,490
Total	12,265,012,079	13,995,443,374

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

	31 December 2022	31 December 2021
Credit risk-weighted assets of loan commitments and financial guarantees	5,670,204,300	7,050,241,700

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 2022, there was no significant legal proceeding against the Bank (31 December 2021: nil).

(4) Capital commitments

As at 31 December 2022, the Bank has no significant capital commitments which require separate disclosure (31 December 2021: nil).

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49 SEGMENT INFORMATION

RMB ('thousand)

31 December 2022	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Tianjin	Chongqing	Others	Elimination	Total
Interest income	2,211,951	1,737,696	440,593	200,860	147,208	57,369	33,983	57,463	137,239	(1,155,314)	3,869,048
Interest expense	(1,724,066)	(987,593)	(210,785)	(63,014)	(70,582)	(21,255)	(23,335)	(29,238)	(73,055)	1,155,314	(2,047,609)
Net interest income	487,885	750,103	229,808	137,846	76,626	36,114	10,648	28,225	64,184	-	1,821,439
Fee and commission income	14,453	139,551	57,432	15,300	11,342	3,318	5,065	3,040	7,869	-	257,370
Fee and commission expense	(52,624)	(10,679)	(330)	(45)	(17)	(79)	(1)	(1)	(11)	-	(63,787)
Net fee and commission income	(38,171)	128,872	57,102	15,255	11,325	3,239	5,064	3,039	7,858	-	193,583
Other operating income	618,057	219,007	85,771	48,393	17,449	6,118	3,763	13,912	31,585	-	1,044,055
Operating expenses	(826,428)	(868,769)	(242,940)	(169,793)	(40,403)	5,665	(17,887)	(4,576)	(24,638)	-	(2,189,769)
Non-operating income/(expenses)	(651)	1,866	(215)	(475)	97	18	30	34	70	-	774
Total profit before tax	240,692	231,079	129,526	31,226	65,094	51,154	1,618	40,634	79,059	-	870,082
Loans and advances, net	-	27,608,427	10,467,448	4,964,058	3,392,226	513,823	664,786	954,625	2,525,823	-	51,091,216
Total assets	85,938,309	63,122,654	18,921,533	7,533,470	4,097,482	2,300,727	1,953,799	1,647,450	4,088,904	(34,946,520)	154,657,808
Due to customers	(7,711,192)	(38,113,718)	(16,401,738)	(6,288,503)	(3,518,200)	(1,657,670)	(2,118,789)	(1,011,267)	(2,802,321)	-	(79,623,398)
Total liabilities	(82,003,788)	(58,993,052)	(17,143,859)	(6,436,059)	(3,572,674)	(1,695,906)	(2,134,031)	(1,085,620)	(3,141,714)	34,946,520	(141,260,183)
Credit impairment losses	800	352,431	(38,711)	(14,104)	(36,424)	(21,835)	686	(13,032)	(36,539)	-	193,272
Depreciation and amortization	66,317	32,194	39,580	11,908	4,783	728	1,266	1,764	6,139	-	164,679
Capital expenditure	64,710	-	2,559	23	86	-	-	1,345	346	-	69,069

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49 SEGMENT INFORMATION (continued)

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

The Bank's revenue from external customers is mainly from mainland China for 2022 and 2021. As at 31 December 2022 and 2021, all non-current assets of the Bank are located in mainland China.

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50 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)

Number of shares	2022			2021		
	Share Plan	ESP	ESPP	Share Plan	ESP	ESPP
Balance at 1 January	607,126	10,996	45,672	541,935	39,857	32,839
Granted	209,555	-	16,426	215,073	-	17,146
Transfer	3,241	-	(154)	16,024	(150)	(395)
Vested	(173,366)	(10,996)	(13,710)	(141,488)	(27,625)	-
Forfeited	(22,860)	-	(3,221)	(24,418)	(1,086)	(3,918)
Balance at 31 December	623,696	-	45,013	607,126	10,996	45,672
Weighted average fair value of the shares granted during the year	SGD 32.45	SGD -	SGD 29.38	SGD 22.28	SGD -	SGD 26.03

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

51 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 2021	Change	31 December 2022
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 2021		Change		31 December 2022	
	Amount RMB	%	Amount RMB	%	Amount RMB	%
DBS Bank Ltd.	8.0 billion	100	-	-	8.0 billion	100

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51 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

(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 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	Ravindra Bahl
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 ultimate parent company	China	Company with limited liability	Fund management	RMB 206 million	Gao Minhe
PSBC Consumer Finance Company Limited	Associate of the ultimate parent company	China	Company with limited liability	Consumer financing	RMB 3,000 million	Wang Xiaomin
Shenzhen Rural Commercial Bank Corporation Limited	Associate of the ultimate parent company	China	Company with limited liability	Banking and financial service	RMB 10,398 million	Li Guangan

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51 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)

(1) Related Entity (continued)

<u>Names of related parties</u>	<u>Relationship with the Bank</u>	<u>Registered location</u>	<u>Economic nature or type</u>	<u>Main business</u>	<u>Registered capital</u>	<u>Chairman of the Board</u>
Fullerton Credit (Hubei) Ltd.	Subsidiary of the entity that has significant influence over the ultimate parent company	China	Company with limited liability	Micro credit business	SGD 159.76 million	MARK LIM CHEN KUO
Fullerton Credit (Sichuan) Ltd.	Subsidiary of the entity that has significant influence over the ultimate parent company	China	Company with limited liability	Micro credit business	SGD 69.14 million	MARK LIM CHEN KUO
Fullerton Credit (Chongqing) Ltd.	Subsidiary of the entity that has significant influence over the ultimate parent company	China	Company with limited liability	Micro credit business	SGD 110.5 million	MARK LIM CHEN KUO

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51 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

	2022	2021
Interest income	115,288,737	44,640,485
Interest expense	(205,569,540)	(142,766,924)
Exchange losses	(251,304,319)	(3,736,844)
Investment (losses)/ income	(477,263,419)	266,204,317
Fair value losses	(2,166,711,398)	(1,113,265,605)
Fee and commission income	8,972,805	10,541,665
Other business income	14,659,565	12,751,845
General and administrative expenses	(101,023,270)	(98,202,341)

(3) Balances with related parties

	31 December 2022	31 December 2021
Deposits with other banks	225,686,456	228,626,748
Placements with financial institutions	5,863,426,302	6,835,598,911
Financial assets purchased under resale agreements	-	1,534,435,900
Loans and advances to customers	121,646,950	453,123,882
Other assets (Note 20)	38,406,481	33,548,622
Deposits from other banks and financial institutions	1,197,105,582	1,051,506,293
Borrowing from other banks	6,289,174,087	8,320,556,104
Due to customers	172,543,033	170,130,607
Debt securities issued	1,223,000,494	1,223,000,494
Other liabilities (Note 30)	72,001,058	1,100,508,916

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51 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)**(e) Related party transactions (continued)****(4) Derivatives instruments**

	31 December 2022	
	Notional amount	Fair value
Foreign exchange derivatives	24,405,690,450	225,451,913
Interest rate derivatives	161,799,433,051	326,877,424
Other derivatives	15,553,043,285	(3,801,741,300)
	<u>201,758,166,786</u>	<u>(3,249,411,963)</u>

	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)
	<u>169,648,333,051</u>	<u>(1,119,169,000)</u>

(5) Loan commitments and financial guarantees

	31 December 2022	31 December 2021
Standby letter of credit	1,669,210,542	2,464,643,239
Letters of guarantee issued	4,293,618	6,216,548
Total	<u>1,673,504,160</u>	<u>2,470,859,787</u>

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits comprised of:

	2022	2021
Salary and welfare	88,296,150	70,688,598
Share incentive plan	10,484,116	6,156,236
Total	<u>98,780,266</u>	<u>76,844,834</u>

52 RISK MANAGEMENT**52.1 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.

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52 RISK MANAGEMENT (continued)

52.1 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. China 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.

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52 RISK MANAGEMENT (continued)

52.2 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.

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

A Credit Risk Policies

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

The Bank localized Group Core Credit Risk Policies (CCRPs) established 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 guides, ensure consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across the Bank, and provide guidance in the formulation of business-specific credit risk policies and standards.

The operational standards and guides are established to provide greater details on the implementation of the credit principles within 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.

Corporate borrowers are assessed individually, and 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 on 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".

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52 RISK MANAGEMENT (continued)

52.2 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 financing 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.

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

B Risk Methodologies (continued)

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

The Bank considers ESG as one of critical risks in our pursuit of business strategies. In 2022, the China Board approved the incorporation of environmental risk considerations into our Risk Appetite Statement. 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 country risk is set out in Group Country Risk Management Standard and its China Addendum. This includes a country risk rating system, where assessments are made independently of business decisions, and two levels of thresholds on transfer risk exposure.

Country risk appetite thresholds on transfer risk exposure are first determined in accordance with the Group Risk Appetite Policy and its China Addendum and take into consideration the risk ratings of the countries. This is the maximum amount of transfer risk exposure permissible for each country as approved by the China BRMC. Transfer risk limits for core countries are set based on our strategic intent, country-specific business requirements as well as risk and reward considerations. Limits for all other countries are set based largely on the risk ratings of the countries.

D Credit risk stress testing

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

The Bank’s credit risk 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 business areas.

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

D Credit risk stress testing (continued)

Pillar 2 credit risk stress testing	The Bank conducts Pillar 2 credit risk stress testing once a year as part of the internal capital adequacy assessment process (ICAAP). Under Pillar 2 credit risk stress testing, the Bank assesses the impact of stress scenarios, with different levels of severity, on asset quality, earnings performance. The results of the credit risk stress testing form inputs to the capital planning process under ICAAP. The purpose of the Pillar 2 credit risk 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 Bank and to develop the appropriate action plan.
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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.
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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 are monitored.

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

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

F Collateral received

Where possible, the Bank takes collateral as an alternative source of repayment.. 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.

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

H Credit impairment 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.

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

H Credit impairment 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.

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

H Credit impairment 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 CASS.

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 price index, gross domestic product 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).

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

H Credit impairment 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, and made necessary adjustments accordingly.

Governance framework

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

China Board holds the ultimate responsibility for the management of ECL related matters. ECL important models and key parameters are subject to the oversight and approval of China Board.

China Board is supported by China Board Audit Committee for ECL management guide and ECL internal/external audit reviews.

Delegated from Board, China Risk Executive Committee and China Risk Models Committee, which comprise cross functional representatives and subject matter experts, perform ECL management and review/approve ECL implementation policies, models and parameters, as well as significant changes and refinement, with support of DBS Group Portfolio Analytics Model team.

ECL models are subject to independent validation by the Risk Management Group (RMG) Model Validation team, as well as independent reviews by internal and external auditors. The validation and assurance processes cover the review of the underlying ECL methodology including its logic and conceptual soundness.

Sensitivity Analysis

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 66,536,642 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.

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52 RISK MANAGEMENT (continued)

52.2 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 2022, the risks of all financial instruments included in the impairment assessment of the Bank are classified as follows:

	31 December 2022							
	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	14,465,555,092	-	-	14,465,555,092	(1,850,938)	-	-	(1,850,938)
Deposits with other banks	2,138,034,080	-	-	2,138,034,080	(99,607)	-	-	(99,607)
Placements with financial institutions	36,801,688,674	300,000,000	-	37,101,688,674	(16,190,792)	(137,325)	-	(16,328,117)
Loans and advances to customers	50,444,443,458	945,096,165	353,896,033	51,743,435,656	(584,745,519)	(283,339,723)	(90,343,718)	(958,428,960)
Other debt instruments	14,747,923,053	-	-	14,747,923,053	(2,852,110)	-	-	(2,852,110)
Debt instruments	10,036,130,167	-	-	10,036,130,167	(2,478,652)	-	-	(2,478,652)
Other assets	-	-	11,350,567	11,350,567	-	-	(11,238,184)	(11,238,184)
Total	128,633,774,524	1,245,096,165	365,246,600	130,244,117,289	(608,217,618)	(283,477,048)	(101,581,902)	(993,276,568)
Loan commitments and financial guarantees	11,484,378,242	780,633,837	-	12,265,012,079	(9,892,630)	(1,122,089)	-	(11,014,719)

As shown above, 40% of the total on-balance-sheet maximum exposure is derived from Loans and advances to customers (31 December 2021: 42%).

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52 RISK MANAGEMENT (continued)

52.2 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 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	13,892,951,174	102,492,200	-	13,995,443,374	(10,097,743)	(79,617)	-	(10,177,360)

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52 RISK MANAGEMENT (continued)

52.2 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 2022	31 December 2021
Trading assets	13,263,837,084	12,169,677,944
Derivative assets	8,928,667,143	7,317,006,782
Financial assets purchased under resale agreements	-	297,029,393
Total	22,192,504,227	19,783,714,119

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 2022

	Gross exposure	Less: ECL allowance	Carrying amount	Fair value of collateral held
Corporate loans	164,227,811	5,254,076	158,973,735	12,535,000
Retail loans	189,668,222	85,089,642	104,578,579	642,780,000
Total	353,896,033	90,343,718	263,552,314	655,315,000

31 December 2021

	Gross exposure	Less: ECL 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

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52 RISK MANAGEMENT (continued)

52.2 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 2022, the renegotiated loans held by the Bank is zero(31 December 2021: 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 2022			
RMB bonds:			
Rated as AAA	2,812,847,194	2,643,876,917	166,854,400
Unrated:			
Government securities	347,027,340	3,962,325,192	7,934,003,892
Banks and other financial institutions debt securities	6,134,693,259	4,373,782,071	-
Asset backed securities	84,897,463	-	-
Overseas bonds:			
Rated as AAA	-	-	1,518,397,875
Rated as A+	54,139,927	-	-
Rated as A	131,990,150	-	-
Rated as A-	32,689,559	-	-
Rated as BBB+ and below	2,099,012,399	46,519,254	69,479,000
Unrated:			
Negotiable certificates of deposit	69,494,374	2,752,579,229	-
Banks and other financial institutions debt securities	314,448,039	968,840,390	-
Corporate debt securities	1,161,961,900	-	347,395,000
Add: Interest Receivable	-	177,473,003	77,945,186
Less: ECL allowance	-	-	(2,478,652)
Total	13,243,201,604	14,925,396,056	10,111,596,701

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52 RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

K Financial investments (continued)

	Trading assets	Other debt instruments	Debt instruments
31 December 2021			
RMB bonds:			
Rated as AAA	3,466,143,772	2,860,149,532	68,843,600
Unrated:			
Government securities	2,556,367,394	2,481,366,196	7,537,819,005
Banks and other financial institutions debt securities	3,485,582,334	4,818,234,350	-
Corporate debt securities	205,400,942	-	-
Local government debt securities	20,835,408	-	-
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

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52 RISK MANAGEMENT (continued)

52.3 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.

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52 RISK MANAGEMENT (continued)

52.3 Market risk (continued)

A Market Risk Management

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

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.

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52 RISK MANAGEMENT (continued)**52.3 Market risk (continued)****A Market Risk Management (continued)**Risk Methodologies (continued)

ES and Net Interest Income (NII) variability are the key risk metrics used to manage the Bank's assets and liabilities. NII variability measures how the earnings of the Bank change under various stress scenarios. Credit risk arising from loans and receivables is managed under the credit risk management framework.

Interest rate risk in the banking book (IRRBB) arises from mismatches in the interest rate 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.

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, and report to the Chief Risk Officer.

The main risk factors driving the Bank's trading portfolios in 2022 were interest rates, foreign exchange and credit spreads.

B Market Risk in 2022

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

In RMB millions ^(a)	As at 31 Dec 2022	1 Jan 2022 to 31 Dec 2022		
		Average	High	Low
Diversified	8.00	9.29	13.70	6.10
Interest Rates	9.46	8.96	15.55	4.16
Foreign Exchange	3.46	4.15	13.14	0.61
Equity	1.00	1.18	1.57	0.87
Credit Spread	5.19	6.28	10.21	4.01
Commodity	-	0.84	4.00	-

In RMB millions ^(a)	As at 31 Dec 2021	1 Jan 2021 to 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	-

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52 RISK MANAGEMENT (continued)

52.3 Market risk (continued)

B Market Risk in 2022 (continued)

(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 experienced 5 backtesting exceptions in 2022 and they occurred in February, March, October and November. The backtesting exceptions were mainly due to large movements in interest rates and foreign exchange.

In 2022, 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 rate curves, NII is estimated to increase by RMB 311 million or decrease by RMB 362 million respectively.

Foreign exchange risk in the Bank's 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 dates on which LIBOR would be discontinued. All GBP, CHF, EUR, JPY London Interbank Offered Rate (LIBOR) settings and the one-week and two-month USD LIBOR settings would lose representativeness or discontinue after 31 December 2021. The remaining USD LIBOR settings would lose representativeness or 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, would similarly be discontinued immediately after 30 June 2023 across all 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 IBOR 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 2022, changes required to systems, processes and models have been identified and have been substantially implemented. Substantially the relevant contracts have been remediated. The exposure of the Bank's business linked to LIBOR is relatively small, and the impact of the IBOR reform to operations is low.

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52 RISK MANAGEMENT (continued)**52.3 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.

2022

RMB

	SGD SOR	USD LIBOR	Total
Non-derivative financial assets ^(b)	-	26,237,253	26,237,253
Derivatives (notional)	4,117,039	2,171,291,895	2,175,408,934

2021

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”.

52.4 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

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

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52 RISK MANAGEMENT (continued)

52.4 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.

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52 RISK MANAGEMENT (continued)**52.4 Liquidity risk (continued)****B Liquidity Risk in 2022**

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
2022 ^(b)					
Net liquidity mismatch	30,966	3,487	2,852	6,058	4,300
Cumulative mismatch	<u>30,966</u>	<u>34,453</u>	<u>37,304</u>	<u>43,363</u>	<u>47,663</u>
2021 ^(b)					
Net liquidity mismatch	32,363	(85)	4,524	1,496	3,270
Cumulative mismatch	<u>32,363</u>	<u>32,278</u>	<u>36,802</u>	<u>38,299</u>	<u>41,568</u>

(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.

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52 RISK MANAGEMENT (continued)

52.4 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	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2022									
Financial Liabilities									
Deposits from other banks and financial institutions	-	-	15,625,479,457	569,665,957	1,460,410,258	1,310,371,367	687,442,000	-	19,653,369,039
Borrowing from other banks	-	-	-	7,227,795,629	4,567,148,523	11,954,805	-	-	11,806,898,957
Derivative liabilities	-	8,930,509,780	-	-	-	-	-	-	8,930,509,780
Financial assets sold under repurchase agreements	-	-	-	6,566,868,610	-	-	-	-	6,566,868,610
Due to customers	-	-	27,178,236,556	34,191,293,968	4,740,550,239	11,645,264,090	2,016,996,771	-	79,772,341,624
Trading liabilities	-	-	-	43,444,495	-	-	-	-	43,444,495
Debt securities issued	-	-	-	3,000,000,000	3,744,000,000	4,470,000,000	2,282,000,000	-	13,496,000,000
Others	-	-	-	400,538,724	72,001,058	276,469,277	-	-	749,009,059
Total financial liabilities	-	8,930,509,780	42,803,716,013	51,999,607,383	14,584,110,078	17,714,059,539	4,986,438,771	-	141,018,441,564

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52 RISK MANAGEMENT (continued)

52.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial Assets									
Cash and deposits with central bank	-	5,573,422,621	8,927,876,571	-	-	-	-	-	14,501,299,192
Deposits with other banks	-	-	2,138,034,080	-	-	-	-	-	2,138,034,080
Placements with financial institutions	-	-	-	11,063,692,095	10,506,702,623	15,396,731,582	776,550,284	-	37,743,676,584
Derivative assets	-	8,928,667,143	-	-	-	-	-	-	8,928,667,143
Loans and advances to customers	623,480,600	-	-	4,989,952,355	14,514,570,997	16,017,123,499	16,586,694,296	3,903,171,561	56,634,993,308
Trading assets	-	20,635,433	-	301,715,578	1,330,667,301	3,299,681,176	8,872,987,463	184,328,148	14,010,015,099
Debt instruments	-	-	-	-	6,800,000	311,804,311	7,115,996,969	4,082,489,000	11,517,090,280
Other debt instruments	-	-	-	1,103,225,502	285,031,559	5,584,250,919	8,494,137,552	202,825,000	15,669,470,532
Others	11,350,567	-	-	815,807,635	-	227,595,185	-	-	1,054,753,387
Total financial assets	634,831,167	14,522,725,197	11,065,910,651	18,274,393,165	26,643,772,480	40,837,186,672	41,846,366,564	8,372,813,709	162,197,999,605
Net cash flows	634,831,167	5,592,215,417	(31,737,805,362)	(33,725,214,218)	12,059,662,402	23,123,127,133	36,859,927,793	8,372,813,709	21,179,558,041

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52 RISK MANAGEMENT (continued)

52.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	Within 1 month	1-3 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
Derivative liabilities	-	7,286,003,810	-	-	-	-	-	-	7,286,003,810
Financial assets sold under repurchase agreements	-	-	-	5,924,774,600	-	-	-	-	5,924,774,600
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
Others	-	-	-	129,851,036	1,100,508,916	236,069,853	-	-	1,466,429,805
Total financial liabilities	-	7,286,003,810	31,860,754,167	53,792,179,696	16,688,702,349	13,647,135,246	4,579,442,533	-	127,854,217,801

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52 RISK MANAGEMENT (continued)

52.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	Within 1 month	1-3 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
Derivative assets	-	7,317,006,782	-	-	-	-	-	-	7,317,006,782
Financial assets purchased under resale agreements	-	-	-	1,534,574,678	-	-	-	-	1,534,574,678
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
Trading assets	-	-	-	104,781,114	279,748,453	3,111,705,582	7,392,971,554	2,334,619,307	13,223,826,010
Debt instruments	-	-	-	-	6,800,000	215,862,934	3,468,092,534	5,363,641,000	9,054,396,468
Other debt instruments	-	-	-	10,050,000	271,100,012	629,552,452	9,108,695,836	1,668,135,000	11,687,533,300
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	21,104,277,360	19,121,458,266	35,560,546,096	37,794,795,667	13,131,507,489	147,953,986,394
Net cash flows	506,016,535	5,413,661,644	(23,825,034,640)	(32,687,902,336)	2,432,755,917	21,913,410,850	33,215,353,134	13,131,507,489	20,099,768,593

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52 RISK MANAGEMENT (continued)

52.5 Fair value hierarchy

The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. 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.

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52 RISK MANAGEMENT (continued)

52.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value

31 December 2022

	Level 1	Level 2	Level 3	Total
FVTPL financial assets				
- Trading assets	20,635,433	13,243,201,651	-	13,263,837,084
- Derivative assets	-	8,928,667,143	-	8,928,667,143
Other debt instruments	-	14,874,674,465	50,721,591	14,925,396,056
Total Assets	<u>20,635,433</u>	<u>37,046,543,259</u>	<u>50,721,591</u>	<u>37,117,900,283</u>
FVTPL financial liabilities				
- Trading liabilities	-	(43,444,495)	-	(43,444,495)
- Derivative liabilities	-	(8,930,509,780)	-	(8,930,509,780)
- Financial assets sold under repurchase agreements	-	(6,437,810,723)	-	(6,437,810,723)
Total Liabilities	<u>-</u>	<u>(15,411,764,998)</u>	<u>-</u>	<u>(15,411,764,998)</u>

31 December 2021

	Level 1	Level 2	Level 3	Total
FVTPL financial assets				
- 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
Other debt instruments	-	10,745,442,556	-	10,745,442,556
Total Assets	<u>-</u>	<u>30,479,162,883</u>	<u>49,993,792</u>	<u>30,529,156,675</u>
FVTPL financial liabilities				
- 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	<u>-</u>	<u>(13,059,513,436)</u>	<u>-</u>	<u>(13,059,513,436)</u>

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52 RISK MANAGEMENT (continued)

52.5 Fair value hierarchy (continued)

(b) Movement of level 3 instruments

	1 January 2022	Purchase	settlement/ repayment	Net gains/(losses)		31 December 2022	Total gains/(losses) generated by financial assets and liabilities held by the Bank as at 31 December 2022—Unrealised losses or other comprehensive income
				recognized in income statement	recognized in other comprehensive income		
Trading assets	49,993,792	-	(49,993,792)	-	-	-	-
Other debt instruments	-	50,000,000	-	723,288	(1,697)	50,721,591	(1,697)
	1 January 2021	Purchase	settlement/ repayment	Net gains/(losses)		31 December 2021	Total gains/(losses) generated by financial assets and liabilities held by the Bank as at 31 December 2021—Unrealised losses or other comprehensive income
				recognized in income statement	recognized in other comprehensive income		
Trading assets	21,997,329	50,000,000	-	(22,003,537)	-	49,993,792	(22,003,537)

As at 31 December 2022, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) included financial institution 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.

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52 RISK MANAGEMENT (continued)

52.5 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 disclosed with 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). Interest rates for loans denominated in foreign currencies are generally floating rates. Therefore, fair value of loans is close to carrying value.

Due to customers

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 within 1 year.

The Bank takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. In 2022, 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.

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

52 RISK MANAGEMENT (continued)**52.6 Capital management**

The Bank's capital management objective is to ensure that the Bank maintains a steady capital level adapt to business conditions, development strategy and risk appetite, while optimizing shareholder returns and meeting the expectations of all stakeholders (including but not limited to customers, investors and rating agencies), on the premise of complying with the capital adequacy requirements set out in the Capital Management Measures for Commercial Banks (Trial) issued by the CBIRC. The Board of Directors sets an internal minimum capital level to ensure adequate capital resources for business growth and adverse circumstances, consistent with the Bank's strategic plans and risk appetite. The Finance Department regularly monitors capital adequacy and reports to the Board of Directors to ensure that they meet external regulatory and internal management requirements.

The Bank's annual capital planning and capital management policies are approved by the Board of Directors. The internal capital adequacy assessment process is an important tool for capital planning. Through the internal capital adequacy assessment process, the Bank calculates the capital supply and capital requirements for the next three years under different stress scenarios (mild, moderate and severe) required by the base scenario and the capital management policy, and evaluates capital adequacy with reference to regulatory requirements and internal minimum capital levels. According to the capital planning results, the Bank adjusts and optimizes the capital structure, reasonably seeks internal and external capital supplement, and ensures that the Bank's capital level can meet the needs of continuing operations.

The Bank is subject to and has complied with the capital adequacy requirements set out in the CBIRC's capital rules throughout the year.

	31 December 2022	31 December 2021
Core Tier 1 capital adequacy ratio	12.4%	12.7%
Tier 1 capital adequacy ratio	12.4%	12.7%
Total capital adequacy ratio	14.8%	15.3%
Core Tier 1 capital	13,397,624,829	12,762,366,389
Regulatory Deductions for Core Tier 1 capital	32,710,198	30,730,479
Net core Tier 1 capital	13,364,914,631	12,731,635,910
Other Tier 1 capital	-	-
Net Tier 1 capital	13,364,914,631	12,731,635,910
Net Tier 2 capital	2,604,341,700	2,606,938,100
Total regulatory capital	15,969,256,331	15,338,574,010
Total risk-weighted assets	107,955,085,500	100,365,693,400

53 Comparative Figures

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