

**DBS BANK (CHINA) LIMITED**

**FINANCIAL STATEMENTS AND  
REPORT OF THE AUDITORS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

**DBS BANK (CHINA) LIMITED**

**FINANCIAL STATEMENTS AND  
REPORT OF THE AUDITORS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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**DBS BANK (CHINA) LIMITED****BALANCE SHEET****AS AT 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
Cash and deposits with the central bank	8	14,527,884,912	12,914,302,009
Deposits with other banks	9	14,213,304,799	7,168,349,714
Placements with other banks	10	11,457,103,074	11,365,617,965
Trading assets	11	3,987,444,525	4,140,232,322
Financial assets purchased under resale agreements	12	-	2,594,928,756
Investment securities - available-for-sale	13	3,051,065,805	2,550,693,786
Derivative assets	14	2,873,823,927	1,805,640,590
Interest receivable	15	592,714,121	500,294,738
Loans and advances	16	46,851,810,166	39,655,863,560
Fixed assets	17	97,164,247	81,670,710
Long-term prepaid expenses	18	34,745,216	29,914,310
Deferred income tax assets	19	160,799,598	279,426,309
Other assets	20	140,819,797	159,339,991
<b>TOTAL ASSETS</b>		<b>97,988,680,187</b>	<b>83,246,274,760</b>

**DBS BANK (CHINA) LIMITED****BALANCE SHEET (continued)****AS AT 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

<b>LIABILITIES</b>	<b>Notes</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
Due to other banks and financial institutions	21	1,106,785,999	1,685,173,388
Placements from other banks	22	13,935,063,731	13,289,545,420
Financial assets sold under repurchase agreements	23	2,141,329,682	1,292,833,499
Derivative liabilities	14	2,744,080,709	1,741,115,557
Due to customers	24	67,810,780,313	57,903,579,779
Payroll and welfare payable	25	113,652,239	91,247,723
Taxes payable	26	25,904,944	224,821,551
Interest payable	27	1,207,079,063	568,468,396
Bond issued	28	497,867,340	-
Other liabilities	29	493,053,505	1,162,621,967
<b>TOTAL LIABILITIES</b>		<b>90,075,597,525</b>	<b>77,959,407,280</b>
<b>OWNER'S EQUITY</b>			
Paid-in capital	30	6,300,000,000	4,000,000,000
Capital surplus	31	13,647,070	(6,410,616)
Surplus reserve	32	159,943,560	129,327,810
General risk reserve	33	587,500,000	476,000,000
Undistributed profits	34	851,992,032	687,950,286
<b>TOTAL OWNER'S EQUITY</b>		<b>7,913,082,662</b>	<b>5,286,867,480</b>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>97,988,680,187</b>	<b>83,246,274,760</b>

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

Chairman:  
Dominic HoPresident / CEO:  
Neil GeChief Finance Officer:  
Cristo Chow

**DBS BANK (CHINA) LIMITED****INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

	Notes	2012	2011
Interest income	35	3,957,495,252	3,356,642,921
Interest expense	35	(2,065,988,703)	(1,149,917,854)
<b>Net interest income</b>		<b>1,891,506,549</b>	<b>2,206,725,067</b>
Fee and commission income	36	245,044,950	230,400,949
Fee and commission expenses	36	(43,946,247)	(39,894,369)
<b>Net fee and commission income</b>		<b>201,098,703</b>	<b>190,506,580</b>
Investment gains	37	79,152,143	68,129,751
Fair value gains/(losses)	38	490,957,021	(329,186,138)
Net losses from foreign exchange and derivative transactions	39	(685,301,178)	(222,376,435)
Other business income		55,295	-
<b>Operating income</b>		<b>1,977,468,533</b>	<b>1,913,798,825</b>
Business tax and levies		(175,318,215)	(142,636,873)
General and administrative expenses	40	(1,305,404,237)	(1,033,966,789)
Impairment charge for credit losses	41	(93,606,014)	(34,257,319)
<b>Operating expense</b>		<b>(1,574,328,466)</b>	<b>(1,210,860,981)</b>
<b>Operating profit</b>		<b>403,140,067</b>	<b>702,937,844</b>
Non-operating income		7,966,492	6,264,087
Non-operating expenses		(806,645)	(1,612,196)
<b>Total profit</b>		<b>410,299,914</b>	<b>707,589,735</b>
Less: Income tax	42	(104,142,418)	(180,369,868)
<b>Net profit</b>		<b>306,157,496</b>	<b>527,219,867</b>
Other comprehensive income	31	20,057,686	17,263,185
<b>Total comprehensive income</b>		<b>326,215,182</b>	<b>544,483,052</b>

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

Chairman:  
Dominic HoPresident / CEO:  
Neil GeChief Finance Officer:  
Cristo Chow

**DBS BANK (CHINA) LIMITED****CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

	Notes	2012	2011
<b>1 Cash flows from operating activities</b>			
Net increase in customer deposits and due to other banks		10,360,279,920	17,653,459,664
Net decrease in trading assets		162,438,618	-
Net increase in placements from other banks		645,518,311	645,661,910
Net decrease in placements with other banks		1,614,695,392	-
Net increase in financial assets sold under repurchase agreements		791,821,832	1,262,169,164
Net decrease in financial assets purchased under resale agreements		2,693,763,879	-
Interest received		3,865,075,869	3,093,137,996
Fee and commission received		248,240,837	234,764,656
Cash received relating to other operating activities		68,303,384	647,394,028
<b>Sub-total of cash inflow</b>		<b>20,450,138,042</b>	<b>23,536,587,418</b>
Net increase in loans and advances		(7,306,647,387)	(7,857,774,603)
Net increase in trading assets		-	(3,204,491,842)
Net increase in deposits with the central bank and other banks		(6,313,109,679)	(4,133,685,836)
Net increase in financial assets purchased under resale agreements		-	(2,200,924,851)
Net increase in placements with other banks		-	(4,903,863,318)
Interest paid		(1,426,768,703)	(845,348,906)
Fee and commission paid		(43,946,247)	(39,894,369)
Cash paid to employees		(742,200,065)	(570,771,647)
Payment of taxes		(366,436,425)	(280,795,854)
Cash paid relating to other operating activities		(1,863,916,671)	(458,982,798)
<b>Sub-total of cash outflow</b>		<b>(18,063,025,177)</b>	<b>(24,496,534,024)</b>
<b>Net cash provided from/(used in) operating activities</b>	43	<b>2,387,112,865</b>	<b>(959,946,606)</b>

**DBS BANK (CHINA) LIMITED**

**CASH FLOW STATEMENT (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

	Notes	2012	2011
<b>2 Cash flows from investing activities</b>			
Cash received from disposal of investment securities - available-for-sale		354,806,702	686,193,646
Cash received from disposal of fixed assets		3,377,605	-
<b>Sub-total of cash inflow</b>		<u>358,184,307</u>	<u>686,193,646</u>
Cash paid for purchase of investment securities-available-for-sale		(828,435,139)	(591,412,077)
Cash paid for purchase of fixed assets and other long-term assets		(70,969,256)	(58,957,709)
<b>Sub-total of cash outflow</b>		<u>(899,404,395)</u>	<u>(650,369,786)</u>
<b>Net cash (used in)/provided from investing activities</b>		<u>(541,220,088)</u>	35,823,860
<b>3 Cash flows from financing activities</b>			
Cash received from capital contributions		2,300,000,000	-
Cash received from bond issuance		497,258,008	-
<b>Sub-total of cash inflow</b>		<u>2,797,258,008</u>	<u>-</u>
<b>Net cash flows from financing activities</b>		<u>2,797,258,008</u>	<u>-</u>
<b>4 Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>(13,154,586)</u>	<u>(185,887,553)</u>
<b>5 Net increase/(decrease) in cash and cash equivalents</b>		4,629,996,199	(1,110,010,299)
Add: Cash and cash equivalents at beginning of year		<u>11,130,739,420</u>	<u>12,240,749,719</u>
<b>6 Cash and cash equivalents at end of year</b>	43	<u><u>15,760,735,619</u></u>	<u><u>11,130,739,420</u></u>

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

Chairman:  
Dominic Ho

President / CEO:  
Neil Ge

Chief Finance Officer:  
Cristo Chow

**DBS BANK (CHINA) LIMITED**

**STATEMENT OF CHANGES IN OWNER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

	<b>Paid-in capital</b> Note 30	<b>Capital surplus</b> Note 31	<b>Surplus reserve</b> Note 32	<b>General risk reserve</b> Note 33	<b>Undistributed profits</b> Note 34	<b>Total owners' equity</b>
Balance at 1 January 2011	4,000,000,000	(23,673,801)	76,605,823	320,600,000	368,852,406	4,742,384,428
Net profit for the year of 2011	-	-	-	-	527,219,867	527,219,867
Other comprehensive income - revaluation reserve for available-for-sale securities	-	17,263,185	-	-	-	17,263,185
Transfer to general risk reserve	-	-	-	155,400,000	(155,400,000)	-
Transfer to surplus reserve	-	-	52,721,987	-	(52,721,987)	-
<b>Balance at 31 December 2011</b>	<b>4,000,000,000</b>	<b>(6,410,616)</b>	<b>129,327,810</b>	<b>476,000,000</b>	<b>687,950,286</b>	<b>5,286,867,480</b>
Net profit for the year of 2012	-	-	-	-	306,157,496	306,157,496
Other comprehensive income - revaluation reserve for available-for-sale securities	-	20,057,686	-	-	-	20,057,686
Capital contribution by owners	2,300,000,000	-	-	-	-	2,300,000,000
Transfer to general risk reserve	-	-	-	111,500,000	(111,500,000)	-
Transfer to surplus reserve	-	-	30,615,750	-	(30,615,750)	-
<b>Balance at 31 December 2012</b>	<b>6,300,000,000</b>	<b>13,647,070</b>	<b>159,943,560</b>	<b>587,500,000</b>	<b>851,992,032</b>	<b>7,913,082,662</b>

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

Chairman:  
Dominic Ho

President / CEO:  
Neil Ge

Chief Finance Officer:  
Cristo Chow



## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

(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 China Banking Regulatory Commission (“CBRC”) to be incorporated as a wholly-owned subsidiary of DBS Bank by consolidating the two branches of DBS Bank (Beijing and Guangzhou) and two branches of DBS HK (Shenzhen and Suzhou). The Shanghai Branch of DBS Bank was permitted to maintain its branch status to carry on its foreign currency business (the “Retained Branch”).

The Bank obtained its finance approval license No. 00000042 from the CBRC and obtained its business license (Shi Ju) Qi Du Hu Zong Zi No. 044272 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 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.

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.

Currently, the Bank has ten branches and nineteen sub-branches located in Shanghai, Beijing, Shenzhen, Suzhou, Guangzhou, Tianjin, Nanning, Dongguan, Hangzhou and Chongqing of the PRC.

## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

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

#### **2 BASIS OF PREPARATION**

The financial statements was prepared in accordance with the "Accounting Standards for Business Enterprises - Basic Standard" and 38 specific standards promulgated by the Ministry of Finance of the People's Republic of China ("MOF") on 15 February 2006, the application guidance and interpretations issued up to date, and other relevant requirements (here after collectively referred to as "Accounting Standards for Business Enterprises").

#### **3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES**

The financial statements of the Bank for the year ended 31 December 2012 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Bank as of 31 December 2012 and of the financial performance, cash flows and other information for the year then ended.

#### **4 PRINCIPAL ACCOUNTING POLICIES**

##### **A Accounting period**

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

##### **B Functional currency**

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

##### **C Foreign currency translation**

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

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

##### **D Cash and cash equivalents**

Cash and cash equivalents refer to assets balances with original maturities of three months or less from the date of acquisition including: cash, non-restricted balances with the central bank, deposits with other banks and placements with other banks.

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

#### 4 PRINCIPAL ACCOUNTING POLICIES (continued)

##### E Financial assets and financial liabilities

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

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

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

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

- Doing so significantly reduces the inconsistencies of the gain and losses recognized in the income statements which resulted from the different measurement basis of these financial assets and liabilities;
- Certain financial assets or financial liabilities portfolios that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

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

###### (2) Loans and receivables

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

###### (3) Available-for-sale financial assets

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

## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

#### **4 PRINCIPAL ACCOUNTING POLICIES (continued)**

#### **E Financial assets and financial liabilities(continued)**

##### **(4) Held-to-maturity financial assets**

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

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

##### **(5) Other financial liabilities**

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

##### **(6) De-recognition of financial assets and financial liabilities**

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

##### **(7) Fair value of financial assets and financial liabilities**

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

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

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

#### 4 PRINCIPAL ACCOUNTING POLICIES (continued)

##### F Impairment of financial assets

###### (1) Assets carried at amortised cost

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

#### 4 PRINCIPAL ACCOUNTING POLICIES (continued)

##### F Impairment of financial assets (continued)

###### (1) Assets carried at amortised cost (continued)

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

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

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

When a loan is unrecoverable, it is written off against the related allowance on impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the Impairment losses for loans and advances in the income statement.

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

###### (2) Assets carried at fair value

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

## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

#### **4 PRINCIPAL ACCOUNTING POLICIES (continued)**

##### **G Offsetting financial instruments**

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

- (i) there is a legally enforceable right to set off the recognized amounts; or
- (ii) there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

##### **H Derivative financial instruments**

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

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

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

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

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

##### **I Fixed assets**

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

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

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

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in Rmb unless otherwise stated)  
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#### 4 PRINCIPAL ACCOUNTING POLICIES (continued)

##### I Fixed assets (continued)

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

	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	42 years	10%	2.14%
Office equipment and furniture	5-8 years	0%-10%	11.25-20%
Computers and other electronic equipment	2-5 years	0%-10%	18-50%

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

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

##### J Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvement and other expenses that have been incurred but are attributable to current and future periods, and should be amortised over a period of more than one year. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortisation.

##### K Impairment of non-financial assets

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

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

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



## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

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#### **4 PRINCIPAL ACCOUNTING POLICIES (continued)**

##### **L Interest income and expenses**

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

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

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

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

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

##### **M Fee and commission income**

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

##### **N Deferred income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets shall be recognised for deductible losses or tax credits that can be carried forward to subsequent years. The deferred tax assets and deferred tax liabilities at the balance sheet date shall be measured the tax rates that, according to the requirements of tax laws, are expected to apply to the period when the asset is realised or the liability is settled.

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

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

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

## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

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#### **4 PRINCIPAL ACCOUNTING POLICIES (continued)**

##### **O Operating leases**

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

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

##### **P Contingent liabilities and acceptances**

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

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

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

##### **Q Financial guarantee contracts**

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

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

The contractual amounts of financial guarantee contracts are disclosed as off-balance sheet items in Note 44.

##### **R Employee benefits**

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

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

## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

#### **4 PRINCIPAL ACCOUNTING POLICIES (continued)**

##### **R Employee benefits (continued)**

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

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

##### **S Provision**

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

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

##### **T Segment Reporting**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

**A Allowance for impairment losses on loans and advances**

The Bank reviews its loan portfolios to assess impairment except that there are known situation demonstrates impairment losses have occurred on quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**B Fair value of financial instruments**

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

**C Income 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.

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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#### 6 AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were authorized for issue by Board of Directors on 29 January 2013.

#### 7 TAXATION

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

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

Under the relevant regulations of the Corporate Income Tax Law, the corporate income tax rate applicable to Shenzhen Branch is gradually increased to 25% in a 5-year period from 2008 to 2012. The applicable corporate income tax rate for 2012 is 25% (2011: 24%).

#### 8 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2012	31 December 2011
Cash	53,179,666	44,878,394
Statutory deposit reserve with the central bank	10,918,878,802	10,121,151,514
Excessive deposit reserve with the central bank	3,555,826,444	2,748,272,101
	<u>14,527,884,912</u>	<u>12,914,302,009</u>

According to the relevant provisions of the People's Bank of China ("PBOC"), the mandatory reserve ratio for customer deposits denominated in foreign currencies was 5% at 31 December 2012 (31 December 2011: 5%). Such reserve is non-interest-bearing.

According to the relevant provisions of the PBOC, the mandatory reserve ratio for customer deposits denominated in Rmb was 18% at 31 December 2012 (31 December 2011: 19%). Rmb deposit reserve bears interest at annual rate of 1.62%(2011: 1.62%).

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

**DBS BANK (CHINA) LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**(All amounts expressed in Rmb unless otherwise stated)  
[English translation for reference only]**9 DEPOSITS WITH OTHER BANKS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Deposits with domestic banks	13,322,771,115	6,657,781,229
Deposits with overseas banks	680,024,228	381,462,073
Deposits with overseas related parties(Note 47(3))	210,509,456	129,106,412
	<u>14,213,304,799</u>	<u>7,168,349,714</u>

**10 PLACEMENTS WITH OTHER BANKS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Placements with domestic banks	11,142,828,074	11,365,617,965
Placements with overseas related banks(Note 47(3))	314,275,000	-
	<u>11,457,103,074</u>	<u>11,365,617,965</u>

**11 TRADING ASSETS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
At fair value		
Bonds issued by policy banks	2,936,883,564	1,566,508,731
Corporate bonds	830,593,545	224,833,724
Treasury bonds	219,967,416	51,420,932
PBOC notes	-	2,297,468,935
	<u>3,987,444,525</u>	<u>4,140,232,322</u>

As at 31 December 2012, trading assets amounting to Rmb 2,166,490,742 are pledged as collateral under repurchase agreements with other banks and financial institutions (31 December 2011: Rmb 1,314,325,164).

**12 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Reverse repos designated at fair value through profit or loss, at fair value	<u>-</u>	<u>2,594,928,756</u>

According to the Bank's policies, reverse repo and repo transactions conducted by the Bank's trading desk are managed and evaluated together with other trading portfolios on fair value basis. Therefore, the Bank designated such assets and liabilities as fair value through profit or loss.

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in Rmb unless otherwise stated)  
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#### 13 INVESTMENT SECURITIES - AVAILABLE-FOR-SALE

	31 December 2012	31 December 2011
At fair value		
Corporate bonds	1,332,567,283	855,149,994
PBOC notes	1,268,459,244	1,345,185,959
Bonds issued by domestic financial institutions	301,150,995	300,689,213
Bonds issued by policy banks	148,888,283	49,668,620
	<u>3,051,065,805</u>	<u>2,550,693,786</u>

#### 14 DERIVATIVE INSTRUMENTS

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

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

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

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

Interest rate options is a right obtained by the buyer, after payment of a premium, to buy or sell certain interest rate instrument at certain interest rate (price) within its validity period or after expiration.

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

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

**DBS BANK (CHINA) LIMITED**

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**14 DERIVATIVE INSTRUMENTS (continued)**

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

31 December 2012	Notional amount	Fair value	
		Assets	Liabilities
<b>Foreign exchange derivatives</b>			
Foreign exchange forward	23,619,593,749	150,782,550	(101,139,381)
Foreign exchange swap	228,616,699,263	1,378,002,354	(1,331,761,193)
Foreign exchange option	4,714,680,406	177,438,512	(170,650,548)
Cross-currency swap	2,253,419,500	5,112,003	(5,457,256)
	<u>259,204,392,918</u>	<u>1,711,335,419</u>	<u>(1,609,008,378)</u>
<b>Interest rate derivatives</b>			
Interest rate swap	114,675,718,907	275,219,906	(253,925,989)
Interest rate cap and floor	62,071,159,725	298,195,828	(280,027,269)
	<u>176,746,878,632</u>	<u>573,415,734</u>	<u>(533,953,258)</u>
<b>Equity derivatives</b>	<u>3,305,627,303</u>	<u>468,987,214</u>	<u>(481,035,776)</u>
<b>Commodity derivatives</b>	<u>5,003,101,900</u>	<u>119,606,071</u>	<u>(119,603,808)</u>
<b>Precious metal option</b>	<u>73,385,493</u>	<u>479,489</u>	<u>(479,489)</u>
Total	<u>444,333,386,246</u>	<u>2,873,823,927</u>	<u>(2,744,080,709)</u>
<b>31 December 2011</b>			
		Fair value	
	Notional amount	Assets	Liabilities
<b>Foreign exchange derivatives</b>			
Foreign exchange forward	63,424,375,734	296,211,996	(322,121,587)
Foreign exchange swap	109,286,670,749	545,137,761	(591,433,618)
Foreign exchange option	384,675,965	965,995	(907,373)
Cross-currency swap	203,719,710	2,459,566	(2,378,719)
	<u>173,299,442,158</u>	<u>844,775,318</u>	<u>(916,841,297)</u>
<b>Interest rate derivatives</b>			
Interest rate swap	194,912,763,860	720,153,061	(712,692,648)
Interest rate cap and floor	20,246,218,884	133,811,709	(6,274)
	<u>215,158,982,744</u>	<u>853,964,770</u>	<u>(712,698,922)</u>
<b>Equity derivatives</b>	<u>2,263,629,483</u>	<u>72,446,726</u>	<u>(77,121,562)</u>
<b>Commodity derivatives</b>	<u>1,060,504,983</u>	<u>34,453,776</u>	<u>(34,453,776)</u>
Total	<u>391,782,559,368</u>	<u>1,805,640,590</u>	<u>(1,741,115,557)</u>



**DBS BANK (CHINA) LIMITED**

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**15 INTEREST RECEIVABLE**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Interest receivable from:		
Loans and advances	320,970,486	375,498,936
Deposits and placements with other banks	163,934,305	46,562,317
Trading and available-for-sale securities	102,033,589	72,808,921
Deposits with the central bank	5,775,741	5,424,564
	<u>592,714,121</u>	<u>500,294,738</u>

**16 LOANS AND ADVANCES**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Retail loans		
-Mortgage loans	3,251,597,320	2,846,888,527
-Others	<u>2,268,522,559</u>	<u>2,703,017,093</u>
<b>Retail loans</b>	<u>5,520,119,879</u>	<u>5,549,905,620</u>
Corporate loans and advances		
-Loans	33,530,453,485	27,981,608,178
-Import and export bills	379,263,862	475,966,478
-Discounted bills and others	<u>7,928,384,044</u>	<u>6,046,584,259</u>
<b>Corporate loans</b>	<u>41,838,101,391</u>	<u>34,504,158,915</u>
<b>Total loans</b>	<u>47,358,221,270</u>	<u>40,054,064,535</u>
Individual impairment allowance	(172,191,810)	(103,793,395)
Collective impairment allowance	<u>(334,219,294)</u>	<u>(294,407,580)</u>
Total impairment allowance	<u>(506,411,104)</u>	<u>(398,200,975)</u>
<b>Loans and advances, net</b>	<u>46,851,810,166</u>	<u>39,655,863,560</u>

**DBS BANK (CHINA) LIMITED**

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[English translation for reference only]

**16 LOANS AND ADVANCES (continued)**

(1) Industry sector:

	31 December 2012		31 December 2011	
	Balance	%	Balance	%
Consumer loans	5,520,119,879	12%	5,549,905,620	14%
Wholesale and retail business	16,040,726,052	34%	8,361,605,930	21%
Manufacturing	13,773,213,997	30%	14,407,390,969	37%
Real estate	5,385,075,346	11%	6,269,939,377	16%
Leasing and commercial services	1,871,667,461	4%	1,563,267,115	4%
Transportation	1,200,178,360	3%	595,019,974	1%
Science research and Technical services	678,694,609	1%	647,793,405	2%
Mining industry	628,980,152	1%	332,649,633	1%
Construction	593,072,835	1%	549,397,795	1%
Information and technology	511,527,850	1%	512,510,909	1%
Resident services and other services	467,105,392	1%	785,738,947	2%
Power, energy and water	291,067,235	1%	196,362,435	-
Hotel and restaurant	209,566,489	-	172,006,769	-
Others	187,225,613	-	110,475,657	-
Total, gross	<u>47,358,221,270</u>	<u>100%</u>	<u>40,054,064,535</u>	<u>100%</u>

(2) Geographic sector:

	31 December 2012	31 December 2011
Shanghai	22,660,962,916	19,777,405,245
Beijing	8,976,552,813	7,011,895,004
Shenzhen	3,968,319,417	4,491,148,586
Guangzhou	3,769,511,814	3,093,917,085
Tianjin	3,163,193,163	2,265,911,712
Suzhou	1,615,300,023	1,831,109,699
Hangzhou	1,387,375,215	730,337,827
Others	1,817,005,909	852,339,377
Total, gross	<u>47,358,221,270</u>	<u>40,054,064,535</u>

(3) By type of security:

	31 December 2012	31 December 2011
Clean loans	12,249,390,297	7,724,595,805
With guarantee only	6,464,799,628	5,731,193,127
With collateral only	16,637,902,443	15,100,629,417
With both collateral and guarantee	12,006,128,902	11,497,646,186
Total, gross	<u>47,358,221,270</u>	<u>40,054,064,535</u>

**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]

**16 LOANS AND ADVANCES (continued)**

(4) Loans and advances past due:

	<b>31 December 2012</b>				Total
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	
Clean loans	4,337,413	2,486,506	9,915,614	1,048,174	17,787,707
With guarantee only	-	16,240,333	-	2	16,240,335
With collateral only	216,492,762	13,576,111	25,132,468	8,866,624	264,067,965
With both collateral and guarantee	172,394,765	36,409,336	70,380,913	25,051,550	304,236,564
	<b>393,224,940</b>	<b>68,712,286</b>	<b>105,428,995</b>	<b>34,966,350</b>	<b>602,332,571</b>

  

	<b>31 December 2011</b>				Total
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	
Clean loans	10,987,045	-	-	1,230,368	12,217,413
With guarantee only	8,710,000	-	-	-	8,710,000
With collateral only	176,626,703	15,144,466	27,152,602	745,889	219,669,660
With both collateral and guarantee	113,216,245	101,286,746	30,497,267	13,690,141	258,690,399
	<b>309,539,993</b>	<b>116,431,212</b>	<b>57,649,869</b>	<b>15,666,398</b>	<b>499,287,472</b>

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

	<b>2012</b>		
	Individually assessed	Collectively assessed	Total
At 1 January	103,793,395	294,407,580	398,200,975
Impairment losses for loans and advances (Note 41)	70,889,067	39,811,714	110,700,781
Write-off	(2,490,083)	-	(2,490,083)
Exchange difference	(569)	-	(569)
At 31 December	<b>172,191,810</b>	<b>334,219,294</b>	<b>506,411,104</b>

  

	<b>2011</b>		
	Individually assessed	Collectively assessed	Total
At 1 January	229,234,003	212,772,025	442,006,028
Impairment losses/(reversal) for loans and advances (Note 41)	(5,174,708)	81,635,555	76,460,847
Write-off	(119,128,674)	-	(119,128,674)
Exchange difference	(1,137,226)	-	(1,137,226)
At 31 December	<b>103,793,395</b>	<b>294,407,580</b>	<b>398,200,975</b>

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**17 FIXED ASSETS**

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 2012	68,160,181	84,167,940	152,328,121
Add: Transfer-in and other additions	17,601,137	36,854,716	54,455,853
Less: Disposals/write-off	(3,974,276)	(1,636,810)	(5,611,086)
At 31 December 2012	<u>81,787,042</u>	<u>119,385,846</u>	<u>201,172,888</u>
Accumulated depreciation			
At 1 January 2012	34,104,127	36,553,284	70,657,411
Add: Charge for the year	12,557,274	22,552,003	35,109,277
Less: Disposals/write-off	(917,851)	(840,196)	(1,758,047)
At 31 December 2012	<u>45,743,550</u>	<u>58,265,091</u>	<u>104,008,641</u>
Net book value			
At 31 December 2012	<u><u>36,043,492</u></u>	<u><u>61,120,755</u></u>	<u><u>97,164,247</u></u>
Cost			
At 1 January 2011	58,202,996	53,137,464	111,340,460
Add: Transfer-in and other additions	14,300,224	32,158,928	46,459,152
Less: Disposals/write-off	(4,343,039)	(1,128,452)	(5,471,491)
At 31 December 2011	<u>68,160,181</u>	<u>84,167,940</u>	<u>152,328,121</u>
Accumulated depreciation			
At 1 January 2011	26,836,480	24,365,538	51,202,018
Add: Charge for the year	10,768,111	13,179,881	23,947,992
Less: Disposals/write-off	(3,500,464)	(992,135)	(4,492,599)
At 31 December 2011	<u>34,104,127</u>	<u>36,553,284</u>	<u>70,657,411</u>
Net book value			
At 31 December 2011	<u><u>34,056,054</u></u>	<u><u>47,614,656</u></u>	<u><u>81,670,710</u></u>

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**18 LONG-TERM PREPAID EXPENSES**

	Leasehold improvement	Others	Total
As at 1 January 2012	28,309,057	1,605,253	29,914,310
Additions	16,852,502	-	16,852,502
Transfer-out	(339,099)	-	(339,099)
Amortization	(11,566,937)	(115,560)	(11,682,497)
As at 31 December 2012	<u>33,255,523</u>	<u>1,489,693</u>	<u>34,745,216</u>
As at 1 January 2011	27,032,332	1,720,813	28,753,145
Additions	21,444,696	-	21,444,696
Transfer-out	(9,498,574)	-	(9,498,574)
Amortization	(10,669,397)	(115,560)	(10,784,957)
As at 31 December 2011	<u>28,309,057</u>	<u>1,605,253</u>	<u>29,914,310</u>

**19 DEFERRED INCOME TAX ASSETS**

Deferred income taxes is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements using tax rate of 25% (31 December 2011: 25%).

	<b>2012</b>	<b>2011</b>
At beginning of year	279,426,309	171,634,340
Income statement (charge)/credit (Note 42)	(111,940,815)	113,546,364
Available-for-sale securities		
-Fair value re-measurement	<u>(6,685,896)</u>	<u>(5,754,395)</u>
At end of year	<u>160,799,598</u>	<u>279,426,309</u>

Net deferred income tax assets arose from the following temporary differences:

	<b>31 December 2012</b>	<b>31 December 2011</b>
Allowance for impairment of loans and advances	95,477,747	106,659,921
Fair value measurement of trading assets and derivatives	(712,852)	121,893,279
Unrecognised tax loss	6,321,711	-
Fair value measurement of available-for-sale securities	2,974,757	9,660,653
Accrued expenses and others	<u>56,738,235</u>	<u>41,212,456</u>
	<u>160,799,598</u>	<u>279,426,309</u>

**DBS BANK (CHINA) LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
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**20 OTHER ASSETS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Rental deposits	39,639,069	35,025,770
Receivables from related parties (Note 47(3))	23,438,637	6,492,769
Settlement receivables from customers	42,829,236	31,312,673
Prepaid expenses	20,797,938	35,587,579
Others	14,114,917	50,921,200
	<u>140,819,797</u>	<u>159,339,991</u>

**21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Deposits from domestic banks	10,842,870	3,012,257
Deposits from domestic related parties (Note 47(3))	204,849,201	72,828,614
Deposits from overseas related parties (Note 47(3))	891,093,928	1,609,332,517
	<u>1,106,785,999</u>	<u>1,685,173,388</u>

**22 PLACEMENTS FROM OTHER BANKS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Placements from domestic banks	4,789,947,500	4,816,095,100
Placements from overseas related parties (Note 47(3))	9,145,116,231	8,473,450,320
	<u>13,935,063,731</u>	<u>13,289,545,420</u>

**23 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Repos designated at fair value through profit or loss, at fair value	<u>2,141,329,682</u>	<u>1,292,833,499</u>

According to the Bank's policies, reverse repo and repo transactions conducted by the Bank's trading desk are managed and evaluated together with other trading portfolios on fair value basis. Therefore, the Bank designated such assets and liabilities as fair value through profit or loss.

**DBS BANK (CHINA) LIMITED**

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**24 DUE TO CUSTOMERS**

	<b>31 December 2012</b>	<b>31 December 2011</b>
<b>At amortized cost</b>		
Corporate current deposits	5,986,592,837	5,803,370,695
Corporate time deposits	19,643,991,613	24,691,675,489
Retail current deposits	1,343,200,978	885,622,127
Retail time deposits	4,184,876,465	2,626,949,848
SIPs sold to corporate customers	28,466,526,701	-
SIPs sold to retail customers	4,800,826,692	1,300,729,143
	<u>64,426,015,286</u>	<u>35,308,347,302</u>
<b>SIPs designated at fair value through profit or loss</b>		
SIPs sold to corporate customers	2,653,763,308	19,310,999,717
SIPs sold to retail customers	731,001,719	3,284,232,760
	<u>3,384,765,027</u>	<u>22,595,232,477</u>
	<u>67,810,780,313</u>	<u>57,903,579,779</u>

As at 31 December 2012, the aggregated principal amount of SIPs designated at fair value through profit or loss is Rmb 3,273,385,097 (31 December 2011: Rmb 22,030,773,162).

**25 PAYROLL AND WELFARE PAYABLE**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Salary and bonus	110,355,949	87,016,541
Pension benefits	3,296,290	4,231,182
	<u>113,652,239</u>	<u>91,247,723</u>

**26 TAXES PAYABLE**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Income tax (pre-paid)	(83,116,648)	130,149,475
Business tax and surcharges	56,634,075	50,665,481
Withheld corporate income tax	16,517,713	23,088,019
Withheld individual income tax and others	35,869,804	20,918,576
	<u>25,904,944</u>	<u>224,821,551</u>

**27 INTEREST PAYABLE**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Due to customers	1,143,497,879	530,223,117
Due to / placements with other banks and financial institutions	48,029,814	38,245,279
Bond issued	15,551,370	-
	<u>1,207,079,063</u>	<u>568,468,396</u>

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**28 BOND ISSUED**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Bond issued	<u>497,867,340</u>	<u>-</u>

On 4 May 2012, the Bank issued a financial bond with notional amount of Rmb 500 million in the PRC inter-bank market. The bond bears interest at annual rate of 4.75% and its maturity date is 7 May 2015.

**29 OTHER LIABILITIES**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Accrued expenses	132,159,650	99,213,708
Unearned commission income	9,974,705	6,778,818
Accounts payable	45,275,967	19,066,423
Undelivered bonds	113,618,408	-
Payable to overseas related parties (Note 47(3))	176,045,820	1,036,310,886
Others	15,978,955	1,252,132
	<u>493,053,505</u>	<u>1,162,621,967</u>

**30 PAID-IN CAPITAL**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Registered and fully paid by DBS Bank	<u>6,300,000,000</u>	<u>4,000,000,000</u>

The registered and paid-in capital is Rmb 4billion as of 31 December 2011, which has been verified by Ernst & Young Hua Ming CPAs Company Limited with a capital verification report (E&Y HM (2007) Yan Zi 60438152\_B04) issued on 16 May 2007. Pursuant to the approval from CBRC on 21 August 2012(Yin Jian Fu(2012)No. 429), the Bank increased capital to Rmb 6.3 billion, which has been verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company with a capital verification report(PwC ZT Yan Zi (2012) No.365) issued on 12 September 2012.



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**31 CAPITAL SURPLUS**

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

Revaluation reserve for available-for-sale securities is included in the balance of capital surplus at year end and also reported as “other comprehensive income” in the income statement for 2012. The movement of such revaluation reserve for 2012 is as follows:

	<b>2012</b>	<b>2011</b>
At beginning of year	(28,981,959)	(46,245,144)
Gains from changes in fair value	26,200,115	16,671,611
Transferred to income statement on disposal	543,467	6,345,969
Deferred income taxes (Note 19)	<u>(6,685,896)</u>	<u>(5,754,395)</u>
At end of year	<u><u>(8,924,273)</u></u>	<u><u>(28,981,959)</u></u>

**32 SURPLUS RESERVE**

	<b>2012</b>	<b>2011</b>
At beginning of year	129,327,810	76,605,823
Current year addition	<u>30,615,750</u>	<u>52,721,987</u>
At end of year	<u><u>159,943,560</u></u>	<u><u>129,327,810</u></u>

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

**DBS BANK (CHINA) LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
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**33 GENERAL RISK RESERVE****2012**

At beginning of year	476,000,000
Current year addition	111,500,000
At end of year	<u>587,500,000</u>

Pursuant to Circular Caijin No. 49 issued by MOF in 2005, banks and certain other financial institutions in the PRC, are required to maintain adequate allowances for impairment losses against their risk assets. In addition, a general risk reserve should be established through the appropriation of retained earnings. This general risk reserve should form part of the owner's equity of financial institutions. As a guiding principle, the balance of general risk reserve should not be less than 1% of the aggregate amount of all risk assets. On 17 April 2012, MOF issued Circular Caijin No. 20, which supersedes Circular Caijin No. 49 and raises the minimum level of general risk reserve to 1.5% of aggregated amount of all risk assets, which should be fulfilled in the next five years since July 2012.

On 31 January 2012, the directors approved the appropriation to the Bank's general risk reserve of Rmb 111.5 million, in accordance with Circular Caijin No. 49 issued in 2005.

**34 UNDISTRIBUTED PROFITS**

On 29 January 2013, the directors approved the appropriation to the Bank's general risk reserve amounting to Rmb 218.4 million in accordance with Circular Caijin No. 20 issued in 2012. The general risk reserve after this appropriation amounts to Rmb 805.9 million.

**35 NET INTEREST INCOME**

	<b>2012</b>	<b>2011</b>
<b>Interest income:</b>		
Loans and advances	2,505,798,165	2,501,877,795
Due from other banks and financial institutions	1,029,140,430	532,817,198
Trading assets and investment securities	240,631,949	151,811,621
Deposits with the central bank	181,924,708	170,136,307
	<u>3,957,495,252</u>	<u>3,356,642,921</u>
<b>Interest expense:</b>		
Due to other banks and financial institutions	(205,229,029)	(216,179,461)
Due to customers*	(1,845,208,304)	(933,738,393)
Bond issued	(15,551,370)	-
	<u>(2,065,988,703)</u>	<u>(1,149,917,854)</u>
<b>Net interest income</b>	<u>1,891,506,549</u>	<u>2,206,725,067</u>

\*See note 24 with respect to interest expenses of SIPs (Structure Investment Products).

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**36 NET FEE AND COMMISSION INCOME**

	<b>2012</b>	<b>2011</b>
<b>Fee and commission income</b>		
Settlement and clearing fees	172,041,716	141,320,964
Credit related fees and commissions	52,258,462	71,740,068
Others	20,744,772	17,339,917
	<u>245,044,950</u>	<u>230,400,949</u>
<b>Fee and commission expense</b>		
Settlement and clearing fees, brokerage expenses	(43,946,247)	(39,894,369)
	<u>(43,946,247)</u>	<u>(39,894,369)</u>
<b>Net fee and commission income</b>	<u>201,098,703</u>	<u>190,506,580</u>

**37 INVESTMENT GAINS**

	<b>2012</b>	<b>2011</b>
Repos and reverse repos	48,755,711	62,574,313
Trading assets	30,396,432	8,618,009
Available-for-sale securities	-	(3,062,571)
	<u>79,152,143</u>	<u>68,129,751</u>

**38 FAIR VALUE GAINS/(LOSSES)**

	<b>2012</b>	<b>2011</b>
Net unrealized gains/(losses) on derivative instruments	518,297,571	(342,124,263)
Net unrealized (losses)/gains on trading assets	(20,745,611)	9,172,868
Net unrealized (losses)/gains on reverse repos and repos	(6,594,939)	3,765,257
	<u>490,957,021</u>	<u>(329,186,138)</u>

**39 NET LOSSES FROM FOREIGN EXCHANGE AND DERIVATIVE TRANSACTIONS**

	<b>2012</b>	<b>2011</b>
Net losses from derivatives and foreign exchange transactions	(685,301,178)	(222,376,435)
	<u>(685,301,178)</u>	<u>(222,376,435)</u>

The amount represents net realized losses on derivative transactions, including mainly foreign exchange and interest rate derivatives.

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**40 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2012</b>	<b>2011</b>
Salaries and bonus	(620,791,212)	(472,143,771)
Social insurance and other welfare benefits	(137,127,784)	(112,293,776)
Telecommunications and computers	(157,074,285)	(128,689,260)
Rental and utilities	(156,882,083)	(137,214,612)
Depreciation and amortization	(46,791,774)	(34,732,949)
Travelling expenses	(21,067,044)	(18,387,809)
Entertainment expenses	(11,823,684)	(6,710,098)
Staff training expenses	(5,375,122)	(4,000,547)
Others	(148,471,249)	(119,793,967)
	<u>(1,305,404,237)</u>	<u>(1,033,966,789)</u>

**41 IMPAIRMENT CHARGE FOR CREDIT LOSSES**

	<b>2012</b>	<b>2011</b>
Impairment losses on loans and advances (Note 16(5))	(110,700,781)	(76,460,847)
Recovery of loans previously written-off	17,094,767	42,203,528
	<u>(93,606,014)</u>	<u>(34,257,319)</u>

**42 INCOME TAX**

	<b>2012</b>	<b>2011</b>
Current income tax	(7,798,397)	293,916,232
Deferred income tax (Note 19)	111,940,815	(113,546,364)
	<u>104,142,418</u>	<u>180,369,868</u>

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

	<b>2012</b>	<b>2011</b>
Profit before income tax	<u>410,299,914</u>	<u>707,589,735</u>
Income tax calculated at 25% (2011: 25%)	102,574,979	176,897,434
Impact of different tax rate in Shenzhen	-	(647,933)
Annual tax filing differences	(220,541)	-
Effect of expenses not deductible for tax purposes	1,787,980	4,120,367
	<u>104,142,418</u>	<u>180,369,868</u>

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**43 NOTES TO THE STATEMENT OF CASH FLOWS**

**(1) Cash and cash equivalents**

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

	<b>2012</b>	<b>2011</b>
Cash (Note 8)	53,179,666	44,878,394
Balances with the PBOC other than restricted reserve deposits (Note 8)	3,555,826,444	2,748,272,101
Deposits with other banks with original terms less than three months from acquisition date	8,076,309,797	5,968,349,714
Placements with other banks with original terms less than three months from acquisition date	4,075,419,712	2,369,239,211
<b>Total</b>	<u>15,760,735,619</u>	<u>11,130,739,420</u>

**(2) Cash flows from operating activities**

	<b>Notes</b>	<b>2012</b>	<b>2011</b>
Net profit		306,157,496	527,219,867
Adjusted by:			
Impairment losses on loans and advances	41	110,700,781	76,460,847
Depreciation and amortization	40	46,791,774	34,732,949
Investment losses for investment securities - available-for-sale	37	-	3,062,571
Losses on disposal of fixed assets and other long-term assets		475,434	1,531,327
Interest expenses of bond issued		609,332	-
Fair value (gains)/losses	38	(490,957,021)	329,186,138
Deferred income tax expenses/(benefits)	42	111,940,815	(113,546,364)
Increase in operating receivables		(8,764,446,702)	(22,491,603,290)
Increase in operating payables		11,065,840,956	20,673,009,349
<b>Net cash provided from /(used in) operating activities</b>		<u>2,387,112,865</u>	<u>(959,946,606)</u>

**(3) Investing and financing activities that do not  
involve cash receipts and payments**

<u>-</u>	<u>-</u>
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**(4) Net increase / (decrease) in cash and cash equivalents:**

Cash and cash equivalents at end of year	15,760,735,619	11,130,739,420
Less: cash and cash equivalents at beginning of year	<u>11,130,739,420</u>	<u>12,240,749,719</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<u>4,629,996,199</u>	<u>(1,110,010,299)</u>

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in Rmb unless otherwise stated)  
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#### 44 CONTINGENT LIABILITIES AND COMMITMENTS

##### (1) Off-balance sheet items

	31 December 2012	31 December 2011
Letters of credit issued	21,865,545,724	10,949,871,136
Letters of guarantee issued	1,112,029,363	1,574,139,685
Irrecoverable loan commitment	736,761,515	1,529,937,525
Bank acceptances	1,194,520,292	1,065,096,451
Standby letter of credit	1,074,412,502	831,650,344
	<u>25,983,269,396</u>	<u>15,950,695,141</u>

##### (2) Operating lease commitments

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

	31 December 2012	31 December 2011
Within 1 year	138,469,484	99,225,441
Over 1 year less than 2 years	109,819,902	116,689,524
Over 2 year less than 3 years	39,016,037	73,357,436
Over 3 years	28,483,589	24,007,657
	<u>315,789,012</u>	<u>313,280,058</u>

##### (3) Legal proceedings

At 31 December 2012, there was no significant legal proceeding against the Bank (31 December 2011: nil).

##### (4) Capital commitments

As at 31 December 2012, the Bank has no significant capital commitments which require separate disclosure (31 December 2011: nil).

#### 45 EVENTS AFTER THE BALANCE SHEET DATE

On 4 January 2013, the Bank issued financial bond of Rmb 1.5 billion in the PRC inter-bank market. The bond bears interest at annual rate of 4.65% and its maturity date is 7 January 2016.

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

#### 46 SEGMENT INFORMATION

For the year ended 31 December 2012	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Others	Elimination	Total
Interest income	176,544,425	2,287,567,102	649,204,785	511,538,801	391,139,269	120,984,864	334,334,442	(513,818,436)	3,957,495,252
Interest expense	(16,178,801)	(1,456,085,782)	(392,956,329)	(297,851,501)	(195,356,970)	(67,416,491)	(153,961,265)	513,818,436	(2,065,988,703)
<b>Net interest income</b>	<b>160,365,624</b>	<b>831,481,320</b>	<b>256,248,456</b>	<b>213,687,300</b>	<b>195,782,299</b>	<b>53,568,373</b>	<b>180,373,177</b>	<b>-</b>	<b>1,891,506,549</b>
Fee and commission income	-	134,755,344	44,907,594	20,181,020	15,520,015	2,522,665	27,158,312	-	245,044,950
Fee and commission expenses	(1,195)	(42,991,568)	(157,929)	(439,329)	(95,075)	(64,840)	(196,311)	-	(43,946,247)
<b>Net fee and commission income</b>	<b>(1,195)</b>	<b>91,763,776</b>	<b>44,749,665</b>	<b>19,741,691</b>	<b>15,424,940</b>	<b>2,457,825</b>	<b>26,962,001</b>	<b>-</b>	<b>201,098,703</b>
Other income/(losses)	(28,758,620)	(69,616,720)	(7,346,080)	5,706,033	(8,731,593)	(15,713)	(6,374,026)	-	(115,136,719)
Operating expenses	(195,736,021)	(831,141,415)	(167,261,765)	(97,616,170)	(92,295,453)	(43,429,113)	(146,848,529)	-	(1,574,328,466)
Non-operating income/(losses)	349,338	2,706,910	50,659	172,899	(366,774)	23,630	4,223,185	-	7,159,847
<b>Total profit/(loss) before tax</b>	<b>(63,780,874)</b>	<b>25,193,871</b>	<b>126,440,935</b>	<b>141,691,753</b>	<b>109,813,419</b>	<b>12,605,002</b>	<b>58,335,808</b>	<b>-</b>	<b>410,299,914</b>
Loans and advances, net	-	22,427,488,177	8,916,156,460	3,907,907,174	3,694,550,126	1,596,252,850	6,309,455,379	-	46,851,810,166
<b>Total assets</b>	<b>17,736,117,892</b>	<b>62,930,592,983</b>	<b>16,874,553,029</b>	<b>13,153,246,073</b>	<b>7,863,003,824</b>	<b>2,161,062,234</b>	<b>8,690,045,331</b>	<b>(31,419,941,179)</b>	<b>97,988,680,187</b>
Due to customers	-	(36,550,503,065)	(12,404,135,057)	(10,081,978,119)	(3,732,492,574)	(1,757,180,047)	(3,284,491,451)	-	(67,810,780,313)
<b>Total liabilities</b>	<b>(13,743,198,702)</b>	<b>(61,356,389,205)</b>	<b>(16,235,124,487)</b>	<b>(12,436,311,605)</b>	<b>(7,564,466,095)</b>	<b>(2,021,169,389)</b>	<b>(8,138,879,221)</b>	<b>31,419,941,179</b>	<b>(90,075,597,525)</b>
Reversal of / (Impairment charge) for loans and advances	(5,800,000)	(82,807,195)	(14,193,311)	43,399,080	3,001,633	(7,296,649)	(29,909,572)	-	(93,606,014)
Depreciation and amortization	(839,322)	(29,599,125)	(2,733,857)	(3,143,153)	(3,774,581)	(1,591,127)	(5,110,609)	-	(46,791,774)
Capital expenditure	247,013	40,835,007	6,096,207	3,926,488	4,931,680	971,456	13,961,405	-	70,969,256

## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in Rmb unless otherwise stated)  
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#### 46 SEGMENT INFORMATION (continued)

For the year ended 31 December 2011	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Others	Elimination	Total
Interest income	145,267,215	2,071,343,016	566,079,949	391,337,518	331,064,018	102,141,174	187,479,196	(438,069,165)	3,356,642,921
Interest expense	(8,800,000)	(926,250,443)	(240,771,414)	(162,471,143)	(136,290,989)	(47,648,778)	(65,754,252)	438,069,165	(1,149,917,854)
<b>Net interest income</b>	<b>136,467,215</b>	<b>1,145,092,573</b>	<b>325,308,535</b>	<b>228,866,375</b>	<b>194,773,029</b>	<b>54,492,396</b>	<b>121,724,944</b>	<b>-</b>	<b>2,206,725,067</b>
Fee and commission income	-	106,493,273	37,114,528	46,343,102	16,009,563	3,632,551	20,807,932	-	230,400,949
Fee and commission expenses	(1,173)	(38,734,190)	(129,193)	(667,377)	(124,028)	(66,607)	(171,801)	-	(39,894,369)
<b>Net fee and commission income</b>	<b>(1,173)</b>	<b>67,759,083</b>	<b>36,985,335</b>	<b>45,675,725</b>	<b>15,885,535</b>	<b>3,565,944</b>	<b>20,636,131</b>	<b>-</b>	<b>190,506,580</b>
Other losses	(30,357,006)	(239,186,765)	(101,069,682)	(38,731,668)	(38,313,092)	(7,913,845)	(27,860,764)	-	(483,432,822)
Operating expenses	(116,483,295)	(619,997,704)	(139,778,859)	(106,756,253)	(122,472,137)	(13,472,212)	(91,900,521)	-	(1,210,860,981)
Non-operating income/(losses)	261,000	3,405,417	1,336,050	(476,159)	(878,313)	(16,208)	1,020,104	-	4,651,891
<b>Total profit/(loss) before tax</b>	<b>(10,113,259)</b>	<b>357,072,604</b>	<b>122,781,379</b>	<b>128,578,020</b>	<b>48,995,022</b>	<b>36,656,075</b>	<b>23,619,894</b>	<b>-</b>	<b>707,589,735</b>
Loans and advances, net	5,800,000	19,633,582,369	6,962,084,201	4,401,386,076	3,006,584,116	1,815,150,248	3,831,276,550	-	39,655,863,560
<b>Total assets</b>	<b>14,606,988,246</b>	<b>57,887,819,978</b>	<b>13,412,768,539</b>	<b>7,414,486,140</b>	<b>8,451,126,657</b>	<b>2,574,780,984</b>	<b>4,626,762,296</b>	<b>(25,728,458,080)</b>	<b>83,246,274,760</b>
Due to customers	-	(32,880,652,711)	(11,460,659,604)	(6,698,164,749)	(3,308,277,671)	(1,636,873,903)	(1,918,951,141)	-	(57,903,579,779)
<b>Total liabilities</b>	<b>(12,241,890,080)</b>	<b>(56,712,821,876)</b>	<b>(12,931,593,995)</b>	<b>(6,837,160,979)</b>	<b>(8,279,745,136)</b>	<b>(2,441,137,272)</b>	<b>(4,243,516,022)</b>	<b>25,728,458,080</b>	<b>(77,959,407,280)</b>
Reversal of / (Impairment charge) for credit losses	-	(12,519,035)	(13,352,173)	20,803,510	(35,570,100)	20,428,641	(14,048,162)	-	(34,257,319)
Depreciation and amortization	(1,083,424)	(19,831,647)	(3,668,107)	(2,322,141)	(2,193,224)	(1,387,812)	(4,246,594)	-	(34,732,949)
Capital expenditure	222,107	32,677,468	5,216,597	5,020,391	9,441,503	444,400	5,382,808	-	58,405,274



## DBS BANK (CHINA) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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#### 46 SEGMENT INFORMATION (continued)

##### Geographical Information

The Bank's revenue from external customers is mainly from mainland China for 2012 and 2011. As at 31 December 2012 and 2011, all non-current assets of the Bank are located in mainland China.

##### Business income

	2012	2011
Consumer Banking Group and Private Banking	141,304,424	133,285,426
Institutional Banking Group	1,461,644,521	1,397,501,714
Treasury and Markets & Treasury Liquidity Management	204,892,663	285,038,188
Others	169,626,925	97,973,497
Total	<u>1,977,468,533</u>	<u>1,913,798,825</u>

#### 47 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 17,096 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 2011	Change	31 December 2012
DBS Bank Ltd.	SGD 16,196 Million	SGD 900 Million	SGD 17,096 Million

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

Name of entity	31 December 2011		Change		31 December 2012	
	Amount	%	Amount	%	Amount	%
DBS Bank Ltd.	Rmb 4 Billion	100	Rmb 2.3 Billion	100	Rmb 6.3 Billion	100

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

Names of related parties	Relationship with the Bank
DBS Bank (Hong Kong) Limited	Company controlled by the parent company
DBS Bank(Tai Wan) Limited	Company controlled by the parent company

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**47 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)**

(e) Related party transactions

(1) Pricing policy

The major transactions entered into by the Bank with its related parties are inter-bank borrowing and lending, and derivative transactions. The terms of inter-bank borrowing and lending, and derivative transactions with related parties follow commercial terms arranged in the ordinary course of the Bank's business. The service charges were either based on the actual cost incurred by related parties with no mark-up or actual cost plus a mark-up. Majority of service charges were based on actual cost plus a mark-up of 7%.

(2) Significant related party transactions

(i) Interest income

	<b>2012</b>	<b>2011</b>
DBS Bank Ltd.	98,558	244,609
DBS Bank (Hong Kong) Limited	-	18,547
	<u>98,558</u>	<u>263,156</u>

(ii) Interest expense

	<b>2012</b>	<b>2011</b>
DBS Bank Ltd.	93,806,562	64,500,899
DBS Bank (Hong Kong) Limited	1,489,335	2,224,443
	<u>95,295,897</u>	<u>66,725,342</u>

(iii) Service charge

	<b>2012</b>	<b>2011</b>
DBS Bank Ltd.	44,612,930	39,969,508
DBS Bank (Hong Kong) Limited	12,701,959	10,524,916
	<u>57,314,889</u>	<u>50,494,424</u>

The service charge is mainly related to technology service support provided by related parties.

(3) Balances with related parties

(i) Due from

	<b>31 December 2012</b>	<b>31 December 2011</b>
DBS Bank Ltd.	347,340,550	76,659,379
DBS Bank (Hong Kong) Limited	177,443,906	52,447,033
	<u>524,784,456</u>	<u>129,106,412</u>

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**47 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)**

(e) Related party transactions(continued)

(3) Balances with related parties (continued)

(ii) Interest receivable

	<b>31 December 2012</b>	<b>31 December 2011</b>
DBS Bank Ltd.	786	-

(iii) Other receivables

	<b>31 December 2012</b>	<b>31 December 2011</b>
DBS Bank Ltd.	20,621,839	3,675,971
DBS Bank (Hong Kong) Limited	2,816,798	2,816,798
	<u>23,438,637</u>	<u>6,492,769</u>

(iv) Deposits / placements from

	<b>31 December 2012</b>	<b>31 December 2011</b>
DBS Bank Ltd.	10,194,089,268	9,269,842,364
DBS Bank (Hong Kong) Limited	45,447,549	885,769,087
DBS Bank (Tai Wan) Limited	1,522,543	-
	<u>10,241,059,360</u>	<u>10,155,611,451</u>

(v) Interest payable

	<b>31 December 2012</b>	<b>31 December 2011</b>
DBS Bank Ltd.	46,801,104	35,782,030
DBS Bank (Hong Kong) Limited	30,583	30,013
	<u>46,831,687</u>	<u>35,812,043</u>

(vi) Other payables

	<b>31 December 2012</b>	<b>31 December 2011</b>
DBS Bank Ltd.	169,534,824	1,031,175,873
DBS Bank (Hong Kong) Limited	6,510,996	5,135,013
	<u>176,045,820</u>	<u>1,036,310,886</u>

**DBS BANK (CHINA) LIMITED**

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**47 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)**

- (e) Related party transactions(continued)
- (3) Balances with related parties (continued)
  - (vii) Derivative transactions

**31 December 2012**

	Notional amount	Fair value
Derivative transactions	<u>56,311,352,496</u>	<u>29,871,264</u>

**31 December 2011**

	Notional amount	Fair value
Derivative transactions	<u>40,146,932,426</u>	<u>100,490,747</u>

## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

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#### **48 FINANCIAL RISK MANAGEMENT**

##### **48.1 Risk governance**

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

Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to the risk appetite limits. To provide risk oversight, senior management committees are mandated to focus on specific risk areas. These oversight committees are the China Credit Risk Committee ('CCRC'), the China Market Risk Committee ('CMRC'), the China Operational Risk Committee ('CORC') and the China Asset & Liability Committee ('ALCO').

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with the business units, independent control functions provide senior management with a timely assessment of key risk exposures and the associated management responses. These units also recommend risk appetite and control limits for approval in line with the risk management framework, as well as supplemented policies and procedures to identify, measure, analyse, and control risk of the bank.

##### **48.2 Credit risk**

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

## **DBS BANK (CHINA) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

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#### **48 FINANCIAL RISK MANAGEMENT (continued)**

##### **48.2 Credit risk (continued)**

###### **A Credit risk measurement**

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

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

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

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

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

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

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

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

###### **(ii) *Debt securities***

The Bank manages credit risks through limiting the issuers’ credit rating. Investments in Rmb debt securities include treasury bonds, PBOC notes, debts of policy banks and corporate bonds.

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

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

## DBS BANK (CHINA) LIMITED

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#### 48 FINANCIAL RISK MANAGEMENT (continued)

##### 48.2 Credit risk (continued)

#### B Risk limit control and mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below:

##### (i) Collateral

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

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

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

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

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

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#### **48 FINANCIAL RISK MANAGEMENT (continued)**

##### **48.2 Credit risk (continued)**

#### **B Risk limit control and mitigation policies (continued)**

##### *(i) Collateral (continued)*

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

##### *(ii) Derivative instruments*

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

##### *(iii) Credit-related commitments*

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

#### **C Impairment and provisioning policies**

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

The objective evidences of impairment are as follows:

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

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



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**48 FINANCIAL RISK MANAGEMENT (continued)****48.2 Credit risk (continued)****C Impairment and provisioning policies (continued)**

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

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

	<b>31 December 2012</b>	<b>31 December 2011</b>
Deposits with other banks	14,213,304,799	7,168,349,714
Placements with other banks	11,457,103,074	11,365,617,965
Trading assets	3,987,444,525	4,140,232,322
Investment securities – available-for-sale	3,051,065,805	2,550,693,786
Financial assets purchased under resale agreements	-	2,594,928,756
Derivative assets	2,873,823,927	1,805,640,590
Interest receivable	592,714,121	500,294,738
Loans to corporate entities	41,398,269,815	34,163,377,974
Loans to individuals	5,453,540,351	5,492,485,586
Other financial assets	120,021,859	123,752,412
Sub-total	<u>83,147,288,276</u>	<u>69,905,373,843</u>
Letters of credit issued	21,865,545,724	10,949,871,136
Letters of guarantee issued	1,112,029,363	1,574,139,685
Irrevocable loan commitment	736,761,515	1,529,937,525
Bank acceptances	1,194,520,292	1,065,096,451
Standby letter of credit	1,074,412,502	831,650,344
Sub-total	<u>25,983,269,396</u>	<u>15,950,695,141</u>
Total	<u><u>109,130,557,672</u></u>	<u><u>85,856,068,984</u></u>

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 56% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2011: 57%).

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.2 Credit risk (continued)**

**E Placements with other banks**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Neither past due nor impaired	11,457,103,074	11,365,617,965
<b>Total</b>	<u>11,457,103,074</u>	<u>11,365,617,965</u>
Less: allowance for impairment losses	-	-
Placements with other banks, net	<u>11,457,103,074</u>	<u>11,365,617,965</u>

**F Loans and advances**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Neither past due nor impaired	46,754,273,690	39,539,686,218
Past due but not impaired	312,688,283	271,040,623
Impaired	291,259,297	243,337,694
<b>Total</b>	<u>47,358,221,270</u>	<u>40,054,064,535</u>
Less: allowance for impairment losses	(506,411,104)	(398,200,975)
<b>Net</b>	<u>46,851,810,166</u>	<u>39,655,863,560</u>

The total allowance for impairment of loans and advances amounted to Rmb 506 million (31 December 2011: Rmb 398 million), of which Rmb 172 million (31 December 2011: Rmb 104 million) represents the individually assessed impairment allowance and the remaining amount of Rmb 334 million (31 December 2011: Rmb 294 million) represents the collectively assessed impairment allowance.

**F.1 Loans and advances neither past due nor impaired**

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

	<b>Corporate loans</b>	<b>Retail loans</b>	<b>Total</b>
<b>31 December 2012</b>			
Pass	41,476,639,848	5,250,527,064	46,727,166,912
Special mention	17,696,667	9,410,111	27,106,778
	<u>41,494,336,515</u>	<u>5,259,937,175</u>	<u>46,754,273,690</u>
<b>31 December 2011</b>			
Pass	34,151,660,616	5,328,027,556	39,479,688,172
Special mention	53,975,888	6,022,158	59,998,046
	<u>34,205,636,504</u>	<u>5,334,049,714</u>	<u>39,539,686,218</u>

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.2 Credit risk (continued)**

**F Loans and advances (continued)**

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

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

The breakdown by overdue period is as follows:

	<b>Past due up to 30 days</b>	<b>Past due 30-60 days</b>	<b>Past due 60-90 days</b>	<b>Past due over 90 days</b>	<b>Total</b>
<b>31 December 2012</b>					
Corporate loans	63,596,045	5,963,138	29,705,487	-	99,264,670
Retail loans	164,844,345	38,650,173	8,875,595	1,053,500	213,423,613
<b>Total</b>	<b>228,440,390</b>	<b>44,613,311</b>	<b>38,581,082</b>	<b>1,053,500</b>	<b>312,688,283</b>
<b>31 December 2011</b>					
Corporate loans	94,028,375	4,482,710	5,131,690	-	103,642,775
Retail loans	149,907,805	17,490,043	-	-	167,397,848
<b>Total</b>	<b>243,936,180</b>	<b>21,972,753</b>	<b>5,131,690</b>	<b>-</b>	<b>271,040,623</b>

As of 31 December 2012, the aggregated fair value of collateral held to support the above corporate loans amounted to Rmb 409 million and that of retail loans amounted to Rmb 748 million (31 December 2011: Rmb 402 million and Rmb 354 million).

**F.3 Loans and advances individually impaired**

	<b>31 December 2012</b>	<b>31 December 2011</b>
Corporate loans	244,500,207	194,879,637
Retail loans	46,759,090	48,458,057
	<u>291,259,297</u>	<u>243,337,694</u>

As of 31 December 2012, the aggregated fair value of collateral held to support the above corporate loans amounted to Rmb 98 million and that of retail loans amounted to Rmb 122 million (31 December 2011: Rmb 132 million and 125 million).

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.2 Credit risk (continued)**

**F Loans and advances (continued)**

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

The Bank performed specific assessment for the above impaired loans and established impairment allowance of Rmb 172 million (31 December 2011: Rmb 104 million) after considering the value of collateral.

**F.4 Loans and advances renegotiated**

Renegotiated loans represent the loans that original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As of 31 December 2012, the renegotiated loans held by the Bank amounted to Rmb 6 million (31 December 2011: Rmb 12 million).

**G Trading assets and available-for-sale ("AFS") securities**

The tables below analyse the Bank's investment securities by credit rating and issuer (for unrated):

<b>Rmb securities</b>	<b>Trading securities</b>	<b>AFS securities</b>
<b>31 December 2012</b>		
Rated as AAA	651,214,255	1,334,101,108
Rated as AA+	-	199,924,117
Rated as AA	179,379,290	99,693,053
Unrated:		
PBOC notes	-	1,268,459,244
Bonds issued by policy banks	2,936,883,564	148,888,283
Treasury bonds	219,967,416	-
	<u>3,987,444,525</u>	<u>3,051,065,805</u>
	<b>Trading assets</b>	<b>AFS securities</b>
<b>31 December 2011</b>		
Rated as AAA	224,833,724	855,149,994
Rated as A	-	300,689,213
Unrated:		
Bonds issued by policy banks	1,566,508,731	49,668,620
Treasury bonds	51,420,932	-
PBOC notes	2,297,468,935	1,345,185,959
	<u>4,140,232,322</u>	<u>2,550,693,786</u>

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#### **48 FINANCIAL RISK MANAGEMENT (continued)**

##### **48.3 Market risk**

Market risk affects the economic values of financial instruments held by the bank, and arises from changes in interest rate yields, foreign exchange rates, equity prices, commodity prices, credit spreads and changes in the correlations and volatilities of these risk factors.

The Bank's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing market risk management within the bank including limit setting and independent model validation, monitoring and valuation.

Market risk is separately managed for the Bank's trading portfolio and non-trading portfolio.

##### **(i) Trading market risk**

The Bank's Trading book market risk covers potential downside economic value volatility affecting trading positions, arising from changes in interest rates, foreign exchange rates and credit spreads, as well as their correlations and implied volatilities.

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

China BRMC establishes the Bank's risk appetite and framework for market risk and China MRC serve as the executive forum for overseeing various aspects of market risk taking including limit management, policies, processes, methodologies and systems.

The principal market risk appetite measures for trading market risk are Value-at-Risk ('VaR') and stress loss. This VaR is complemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as loss triggers for management action.

The Bank's trading VaR methodology uses a historical simulation approach to forecast the Bank's trading market risk. The same methodology is employed to compute stressed VaR and average tail loss metrics. The Bank computes VaR (in Singaporean Dollars 'SG\$') daily. VaR (at a 99% confidence level over a one-day holding period, using a 1-year historical observation period) is back-tested against the profit or loss of the trading book in line with policy in order to monitor its predictive power.

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

The following table shows the year end, average, highest and lowest daily VaR (at a 99% confidence level over a one-day holding period) for the trading market risk.

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#### 48 FINANCIAL RISK MANAGEMENT (continued)

##### 48.3 Market risk (continued)

###### (i) Trading market risk (continued)

Rmb in million	As at 31 December 2012	1 January 2012 to 31 December 2012*		
		Average	Highest	Lowest
Total	11.34	8.65	12.25	5.88

  

Total	As at 31 December 2011	1 January 2011 to 31 December 2011*		
		Average	Highest	Lowest
Total	9.01	7.58	14.12	4.39

\* using a 1-year historical observation period

###### (ii) Non-trading market risk

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

China BRMC and China MRC oversee non-trading market risk and allocate core limits to risk taking units, including the setting of operational limits and guidelines to refine risk management.

#### A Currency risk

Non-trading foreign exchange exposure covers the foreign exchange risk arising from foreign currency earnings. This non-trading foreign exchange risk is monitored using FX Delta report.

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

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.3 Market risk (continued)**

**(ii) Non-trading market risk (continued)**

**A Currency Risk (continued)**

31 December 2012	RMB	USD	HKD	Others	Total
<b>Assets</b>					
Cash and deposits with the central bank	14,076,680,004	416,828,875	27,279,999	7,096,034	14,527,884,912
Deposits with other banks	8,937,880,178	4,844,086,463	208,935,115	222,403,043	14,213,304,799
Placements with other banks	10,512,664,885	944,438,189	-	-	11,457,103,074
Trading assets	3,987,444,525	-	-	-	3,987,444,525
Investment securities - available-for-sale	3,051,065,805	-	-	-	3,051,065,805
Derivative assets	2,479,530,299	329,369,674	107,692	64,816,262	2,873,823,927
Interest receivable	378,355,013	207,420,841	4,397,073	2,541,194	592,714,121
Loans and advances	31,850,150,004	12,695,819,340	1,734,571,036	571,269,786	46,851,810,166
Fixed assets	97,164,247	-	-	-	97,164,247
Long-term prepaid expenses	34,745,216	-	-	-	34,745,216
Deferred income tax assets	160,799,598	-	-	-	160,799,598
Other assets	95,933,134	33,954,672	-	10,931,991	140,819,797
<b>Total assets</b>	<b>75,662,412,908</b>	<b>19,471,918,054</b>	<b>1,975,290,915</b>	<b>879,058,310</b>	<b>97,988,680,187</b>
<b>Liabilities</b>					
Due to other banks and financial institutions	855,497,819	205,840,906	45,447,274	-	1,106,785,999
Placements from other banks	3,250,000,000	10,685,063,731	-	-	13,935,063,731
Financial assets sold under repurchase agreements	2,141,329,682	-	-	-	2,141,329,682
Derivative liabilities	1,008,494,555	1,649,248,297	94,326	86,243,531	2,744,080,709
Due to customers	59,404,004,609	4,796,990,573	298,043,938	3,311,741,193	67,810,780,313
Payroll and welfare payable	113,652,239	-	-	-	113,652,239
Taxes payable	25,904,944	-	-	-	25,904,944
Interest payable	1,105,064,171	42,863,955	2,505,694	56,645,243	1,207,079,063
Bond issued	497,867,340	-	-	-	497,867,340
Other liabilities	237,397,290	225,458,921	12,196,822	18,000,472	493,053,505
<b>Total liabilities</b>	<b>68,639,212,649</b>	<b>17,605,466,383</b>	<b>358,288,054</b>	<b>3,472,630,439</b>	<b>90,075,597,525</b>
<b>Net on-balance sheet position</b>	<b>7,023,200,259</b>	<b>1,866,451,671</b>	<b>1,617,002,861</b>	<b>(2,593,572,129)</b>	<b>7,913,082,662</b>
<b>Financial guarantees and credit related commitments</b>	<b>23,698,238,120</b>	<b>2,162,674,679</b>	<b>91,865,592</b>	<b>30,491,005</b>	<b>25,983,269,396</b>

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.3 Market risk (continued)**

**(ii) Non-trading market risk (continued)**

**A Currency Risk (continued)**

31 December 2011	RMB	USD	HKD	Others	Total
<b>Assets</b>					
Cash and deposits with the central bank	12,506,510,623	368,230,526	33,110,214	6,450,646	12,914,302,009
Deposits with other banks	4,410,603,728	2,425,521,277	131,703,232	200,521,477	7,168,349,714
Placements with other banks	11,365,617,965	-	-	-	11,365,617,965
Trading assets	4,140,232,322	-	-	-	4,140,232,322
Financial assets purchased under resale agreements	2,594,928,756	-	-	-	2,594,928,756
Investment securities - available-for-sale	2,550,693,786	-	-	-	2,550,693,786
Derivative assets	1,613,537,291	141,890,542	629,028	49,583,729	1,805,640,590
Interest receivable	341,402,222	142,877,520	118,478	15,896,518	500,294,738
Loans and advances	27,006,298,365	9,654,045,285	2,023,936,953	971,582,957	39,655,863,560
Fixed assets	81,670,710	-	-	-	81,670,710
Long-term prepaid expenses	29,914,310	-	-	-	29,914,310
Deferred income tax assets	279,426,309	-	-	-	279,426,309
Other assets	107,498,362	8,166,577	-	43,675,052	159,339,991
<b>Total assets</b>	<b>67,028,334,749</b>	<b>12,740,731,727</b>	<b>2,189,497,905</b>	<b>1,287,710,379</b>	<b>83,246,274,760</b>
<b>Liabilities</b>					
Due to other banks and financial institutions	1,567,051,523	72,115,685	46,006,180	-	1,685,173,388
Placements from other banks	2,050,000,000	11,239,545,420	-	-	13,289,545,420
Financial assets sold under repurchase agreements	1,292,833,499	-	-	-	1,292,833,499
Derivative liabilities	1,588,115,261	133,427,525	10,080	19,562,691	1,741,115,557
Due to customers	50,900,166,774	3,315,565,702	299,550,153	3,388,297,150	57,903,579,779
Payroll and welfare payable	91,247,723	-	-	-	91,247,723
Taxes payable	224,821,551	-	-	-	224,821,551
Interest payable	510,095,673	20,761,834	2,143,431	35,467,458	568,468,396
Other liabilities	2,426,380,395	823,764,098	77,103,201	(2,164,625,727)	1,162,621,967
<b>Total liabilities</b>	<b>60,650,712,399</b>	<b>15,605,180,264</b>	<b>424,813,045</b>	<b>1,278,701,572</b>	<b>77,959,407,280</b>
<b>Net on-balance sheet position</b>	<b>6,377,622,350</b>	<b>(2,864,448,537)</b>	<b>1,764,684,860</b>	<b>9,008,807</b>	<b>5,286,867,480</b>
<b>Financial guarantees and credit related commitments</b>	<b>13,899,729,929</b>	<b>1,784,058,755</b>	<b>142,486,352</b>	<b>124,420,105</b>	<b>15,950,695,141</b>



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#### **48 FINANCIAL RISK MANAGEMENT (continued)**

##### **48.3 Market risk (continued)**

##### **(ii) Non-trading market risk (continued)**

##### **B Interest rate risk**

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

The estimated value volatility for major positions in RMB, JPY, HKD and USD from source (a) of non-trading interest rate risk as at 31 December 2012, assuming a 50 basis point increase in general interest rates for these currencies was a decrease of Rmb 10.47 million.

Interest rate risk arising from mismatches in the interest rate profile of assets and liabilities has several aspects: basis risk arising from different interest rate benchmarks, interest rate repricing risk, yield curve risks and embedded optionality.

The estimated value volatility for major positions in RMB, JPY and USD from source (b) of non-trading interest rate risk as at 31 December 2012, assuming a 50 basis point increase in general interest rates for these currencies was an increase of Rmb 122.55 million.

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

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

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.3 Market risk (continued)**

**(ii) Non-trading market risk (continued)**

**B Interest rate risk (continued)**

31 December 2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	14,073,390,055	-	-	-	454,494,857	14,527,884,912
Deposits with other banks	8,076,309,799	6,136,995,000	-	-	-	14,213,304,799
Placements with other banks	4,068,717,642	7,188,385,432	200,000,000	-	-	11,457,103,074
Trading assets	1,807,896,810	508,305,024	1,501,341,143	169,901,548	-	3,987,444,525
Investment securities – available-for-sale	109,847,065	2,205,721,311	698,572,165	36,925,264	-	3,051,065,805
Derivative assets	-	-	-	-	2,873,823,927	2,873,823,927
Interest receivables	-	-	-	-	592,714,121	592,714,121
Loans and advances	37,650,837,150	8,421,174,288	779,798,728	-	-	46,851,810,166
Fixed assets	-	-	-	-	97,164,247	97,164,247
Long-term prepaid expenses	-	-	-	-	34,745,216	34,745,216
Deferred income tax assets	-	-	-	-	160,799,598	160,799,598
Other assets	-	-	-	-	140,819,797	140,819,797
<b>Total assets</b>	<b>65,786,998,521</b>	<b>24,460,581,055</b>	<b>3,179,712,036</b>	<b>206,826,812</b>	<b>4,354,561,763</b>	<b>97,988,680,187</b>
<b>Liabilities</b>						
Due to other banks and financial institutions	1,097,778,929	9,007,070	-	-	-	1,106,785,999
Placements from other banks	13,935,063,731	-	-	-	-	13,935,063,731
Financial assets sold under repurchase agreements	2,141,329,682	-	-	-	-	2,141,329,682
Derivative liabilities	-	-	-	-	2,744,080,709	2,744,080,709
Due to customers	22,311,587,157	38,147,491,930	7,197,206,263	43,115,033	111,379,930	67,810,780,313
Payroll and welfare payable	-	-	-	-	113,652,239	113,652,239
Taxes payable	-	-	-	-	25,904,944	25,904,944
Interest payable	-	-	-	-	1,207,079,063	1,207,079,063
Bond issued	-	-	497,867,340	-	-	497,867,340
Other liabilities	-	-	-	-	493,053,505	493,053,505
<b>Total liabilities</b>	<b>39,485,759,499</b>	<b>38,156,499,000</b>	<b>7,695,073,603</b>	<b>43,115,033</b>	<b>4,695,150,390</b>	<b>90,075,597,525</b>
<b>Net interest re-pricing gap</b>	<b>26,301,239,022</b>	<b>(13,695,917,945)</b>	<b>(4,515,361,567)</b>	<b>163,711,779</b>	<b>(340,588,627)</b>	<b>7,913,082,662</b>

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.3 Market risk (continued)**

**(ii) Non-trading market risk (continued)**

**B Interest rate risk (continued)**

31 December 2011	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank	12,503,605,862	-	-	-	410,696,147	12,914,302,009
Deposits with other banks	5,968,349,714	1,200,000,000	-	-	-	7,168,349,714
Placements with other banks	2,439,239,211	8,926,378,754	-	-	-	11,365,617,965
Trading assets	1,002,598,203	984,498,734	1,831,572,185	321,563,200	-	4,140,232,322
Investment securities – available-for-sale	2,394,260,235	200,668,521	-	-	-	2,594,928,756
Financial assets purchased under resale agreements	-	343,573,366	2,170,526,091	36,594,329	-	2,550,693,786
Derivative assets	-	-	-	-	1,805,640,590	1,805,640,590
Interest receivables	-	-	-	-	500,294,738	500,294,738
Loans and advances	31,851,611,575	7,229,267,893	574,984,092	-	-	39,655,863,560
Fixed assets	-	-	-	-	81,670,710	81,670,710
Long-term prepaid expenses	-	-	-	-	29,914,310	29,914,310
Deferred income tax assets	-	-	-	-	279,426,309	279,426,309
Other assets	-	-	-	-	159,339,991	159,339,991
<b>Total assets</b>	<b>56,159,664,800</b>	<b>18,884,387,268</b>	<b>4,577,082,368</b>	<b>358,157,529</b>	<b>3,266,982,795</b>	<b>83,246,274,760</b>
<b>Liabilities</b>						
Due to other banks and financial institutions	773,099,818	247,973,570	664,100,000	-	-	1,685,173,388
Placements from other banks	13,289,545,420	-	-	-	-	13,289,545,420
Financial assets sold under repurchase agreements	1,292,833,499	-	-	-	-	1,292,833,499
Derivative liabilities	-	-	-	-	1,741,115,557	1,741,115,557
Due to customers	21,771,408,462	25,722,418,791	8,814,468,559	1,030,824,651	564,459,316	57,903,579,779
Payroll and welfare payable	-	-	-	-	91,247,723	91,247,723
Taxes payable	-	-	-	-	224,821,551	224,821,551
Interest payable	-	-	-	-	568,468,396	568,468,396
Other liabilities	-	-	-	-	1,162,621,967	1,162,621,967
<b>Total liabilities</b>	<b>37,126,887,199</b>	<b>25,970,392,361</b>	<b>9,478,568,559</b>	<b>1,030,824,651</b>	<b>4,352,734,510</b>	<b>77,959,407,280</b>
Net interest re-pricing gap	19,032,777,601	(7,086,005,093)	(4,901,486,191)	(672,667,122)	(1,085,751,715)	5,286,867,480

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#### **48 FINANCIAL RISK MANAGEMENT (continued)**

##### **48.4 Liquidity risk**

Funding liquidity risk (or liquidity risk) is the current and prospective risk arising from the Bank to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, and extensions of credit and working capital needs. The Bank seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The primary tool of monitoring liquidity risk is the maturity mismatch analysis, which presents the profile of future expected cashflows under pre-defined scenarios. This is monitored against available funding and liquid assets across successive time bands and across major currencies under normal and adverse scenarios. In addition, other monitoring metrics (for example, liquidity ratios, deposit concentration ratio, and balance sheet analysis) are used as complementary tools to the maturity mismatch analysis.

China ALCO is the primary party responsible for liquidity management based on guidelines framework approved by the China BRMC.

To manage liquidity risk within the tolerance, limits and triggers are set on maturity mismatches under normal and adverse scenarios and other monitoring metrics. Such limits seek to ensure that adequate funding and liquid assets are available to meet liquidity needs under both normal and adverse scenarios.

As part of its management of liquidity risk inherent in its financial liabilities, the Bank employs a number of strategies. These include maintaining sufficient liquid assets, maintaining diversified sources of liquidity, and having robust internal control processes and contingency plans.

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.4 Liquidity risk (continued)**

**A Non-derivative cash flows of financial assets and liabilities**

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

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
<b>31 December 2012</b>						
<b>Financial Liabilities</b>						
Due to other banks and financial institutions	390,488,590	751,851,023	9,059,608	-	-	1,151,399,221
Placements from other banks	9,027,251,666	4,920,448,723	-	-	-	13,947,700,389
Financial assets sold under repurchase agreements	2,144,873,141	-	-	-	-	2,144,873,141
Debentures payable	-	-	23,750,000	547,500,000	-	571,250,000
Due to customers	13,166,634,365	8,513,434,341	38,726,361,095	8,209,498,525	1,315,484,545	69,931,412,871
Total financial liabilities	<u>24,729,247,762</u>	<u>14,185,734,087</u>	<u>38,759,170,703</u>	<u>8,756,998,525</u>	<u>1,315,484,545</u>	<u>87,746,635,622</u>
<b>Financial Assets</b>						
Cash and deposits with the central bank	14,527,884,912	-	-	-	-	14,527,884,912
Deposits with other banks	6,196,907,512	1,922,013,580	6,338,523,811	-	-	14,457,444,903
Placements with other banks	1,402,846,134	2,540,456,569	7,624,366,078	211,100,750	-	11,778,769,531
Trading assets	15,549,555	409,930,281	582,124,918	3,218,149,355	183,030,500	4,408,784,609
Investment securities – available-for-sale	-	118,232,000	2,314,377,000	739,128,000	44,692,000	3,216,429,000
Loans and advances	6,325,331,475	9,008,354,431	21,115,727,761	9,905,503,862	6,328,738,653	52,683,656,182
Total financial assets	<u>28,468,519,588</u>	<u>13,998,986,861</u>	<u>37,975,119,568</u>	<u>14,073,881,967</u>	<u>6,556,461,153</u>	<u>101,072,969,137</u>
<b>Net cash flows</b>	<u>3,739,271,826</u>	<u>(186,747,226)</u>	<u>(784,051,135)</u>	<u>5,316,883,442</u>	<u>5,240,976,608</u>	<u>13,326,333,515</u>

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.4 Liquidity risk (continued)**

**A Non-derivative cash flows of financial assets and liabilities**

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
<b>31 December 2011</b>						
<b>Financial Liabilities</b>						
Due to other banks and financial institutions	555,130,865	223,500,331	254,041,540	708,544,286	-	1,741,217,022
Placements from other banks	8,373,182,734	4,941,326,497	-	-	-	13,314,509,231
Financial assets sold under repurchase agreements	1,293,597,909	-	-	-	-	1,293,597,909
Due to customers	11,736,661,103	8,063,869,762	26,605,399,209	10,802,875,846	3,071,475,934	60,280,281,854
Total financial liabilities	21,958,572,611	13,228,696,590	26,859,440,749	11,511,420,132	3,071,475,934	76,629,606,016
<b>Financial Assets</b>						
Cash and deposits with the central bank	12,919,236,892	-	-	-	-	12,919,236,892
Deposits with other banks	4,387,054,913	1,622,964,536	1,233,603,947	-	-	7,243,623,396
Placements with other banks	508,561,599	1,909,750,968	9,315,145,364	-	-	11,733,457,931
Trading assets	8,840,538	6,186,718	1,296,638,328	2,976,515,035	346,993,500	4,635,174,119
Investment securities – available-for-sale	-	5,507,000	419,865,068	2,305,335,466	46,256,000	2,776,963,534
Financial assets purchased under resale agreements	502,445,205	1,931,524,399	210,276,000	-	-	2,644,245,604
Loans and advances	4,934,211,647	7,503,943,959	15,784,930,611	11,338,311,508	6,878,146,167	46,439,543,892
Total financial assets	23,260,350,794	12,979,877,580	28,260,459,318	16,620,162,009	7,271,395,667	88,392,245,368
<b>Net cash flows</b>	1,301,778,183	(248,819,010)	1,401,018,569	5,108,741,877	4,199,919,733	11,762,639,352

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.4 Liquidity risk (continued)**

**B Derivative cash flows**

(1) Derivatives settled on a net basis

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

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

	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 December 2012</b>						
Interest rate derivatives	<u>5,438,866</u>	<u>2,062,966</u>	<u>4,469,936</u>	<u>11,111,600</u>	<u>-</u>	<u>23,083,368</u>
<b>31 December 2011</b>						
Interest rate derivatives	<u>(17,766,721)</u>	<u>30,602,233</u>	<u>18,417,592</u>	<u>12,079,664</u>	<u>-</u>	<u>43,332,768</u>

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.4 Liquidity risk (continued)**

**B Derivative cash flows (continued)**

(2) Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis mainly include derivative: currency forward

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

	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>As at 31 December 2012</b>						
Foreign exchange derivatives						
- Outflow	85,416,532,355	90,802,014,862	108,670,569,593	3,340,097,535	-	288,229,214,345
- Inflow	<u>85,424,020,967</u>	<u>90,916,710,996</u>	<u>108,659,639,249</u>	<u>3,358,947,526</u>	<u>-</u>	<u>288,359,318,738</u>
<b>As at 31 December 2011</b>						
Foreign exchange derivatives						
- Outflow	64,295,063,026	45,363,883,259	61,495,262,098	1,556,838,100	-	172,711,046,483
- Inflow	<u>64,373,834,657</u>	<u>45,376,447,752</u>	<u>61,486,680,362</u>	<u>1,560,353,800</u>	<u>-</u>	<u>172,797,316,571</u>



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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.4 Liquidity risk (continued)**

**C Off-balance sheet items**

	<b>No later than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 December 2012</b>				
Letters of credit issued	21,865,545,724	-	-	21,865,545,724
Letters of guarantee issued	969,822,408	123,206,955	19,000,000	1,112,029,363
Irrevocable loan commitment	236,046,796	355,557,020	145,157,699	736,761,515
Bank acceptances	1,194,520,292	-	-	1,194,520,292
Standby letter of credit	948,702,502	125,710,000	-	1,074,412,502
Operating lease commitments	138,469,484	177,319,528	-	315,789,012
<b>Total</b>	<b>25,353,107,206</b>	<b>781,793,503</b>	<b>164,157,699</b>	<b>26,299,058,408</b>
<b>31 December 2011</b>				
Letters of credit issued	10,692,871,136	257,000,000	-	10,949,871,136
Letters of guarantee issued	1,468,209,892	86,929,793	19,000,000	1,574,139,685
Irrevocable loan commitment	332,087,337	822,962,107	374,888,081	1,529,937,525
Bank acceptances	1,065,096,451	-	-	1,065,096,451
Standby letter of credit	705,632,344	126,018,000	-	831,650,344
Operating lease commitments	99,225,441	214,054,617	-	313,280,058
<b>Total</b>	<b>14,363,122,601</b>	<b>1,506,964,517</b>	<b>393,888,081</b>	<b>16,263,975,199</b>

**48.5 Fair values of financial assets and liabilities**

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

- (i) Cash and due from other banks and financial institutions, Deposits with the central bank, Deposits with other banks, Due to other banks and financial institutions, Interest receivable, Interest payable, Other assets and Other liabilities.

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

- (ii) Loans and advances

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

- (iii) Customer deposits

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

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.6 Fair value hierarchy**

CBRC guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and Rmb debt instruments traded in inter-bank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and China Bond.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes structured financial instruments.

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

**31 December 2012**

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading securities	- 3,987,444,525		-	3,987,444,525
- Derivatives assets	- 2,871,929,620		1,894,307	2,873,823,927
Available-for-sale investments	- 3,051,065,805		-	3,051,065,805
<b>Total Assets</b>	<b>- 9,910,439,950</b>	<b>1,894,307</b>	<b>9,912,334,257</b>	
Financial liabilities at fair value				
- Derivative liabilities	- (2,741,810,723)	(2,269,986)		(2,744,080,709)
- Repos	- (2,141,329,682)		-	(2,141,329,682)
Financial liabilities designated as fair value through profit or loss - SIPs	- (3,384,042,912)	(722,115)		(3,384,765,027)
<b>Total Liabilities</b>	<b>- (8,267,183,317)</b>	<b>(2,992,101)</b>	<b>(8,270,175,418)</b>	

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**48 FINANCIAL RISK MANAGEMENT (continued)**

**48.6 Fair value hierarchy (continued)**

**31 December 2011**

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading securities	-	4,140,232,322	-	4,140,232,322
- Derivatives assets	-	1,805,640,590	-	1,805,640,590
- Reverse repos	-	2,594,928,756	-	2,594,928,756
Available-for-sale investments	-	2,550,693,786	-	2,550,693,786
<b>Total Assets</b>	-	<b>11,091,495,454</b>	-	<b>11,091,495,454</b>
Financial liabilities at fair value				
- Derivative liabilities	-	(1,741,115,557)	-	(1,741,115,557)
- Repos	-	(1,292,833,499)	-	(1,292,833,499)
Financial liabilities designated as fair value through profit or loss - SIPs	-	(22,595,232,477)	-	(22,595,232,477)
<b>Total Liabilities</b>	-	<b>(25,629,181,533)</b>	-	<b>(25,629,181,533)</b>

The changes in level 3 financial assets are analysed below:

	Derivative Assets	Financial Assets Total	Derivative Liabilities	SIPs	Financial Liabilities Total
At 1 January 2012	-	-	-	-	-
Consolidated Income					
-Main income	1,894,307	1,894,307	(2,269,986)	(722,115)	(2,992,101)
-Others	-	-	-	-	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Transfer out of level 3	-	-	-	-	-
At 31 December 2012	<b>1,894,307</b>	<b>1,894,307</b>	<b>(2,269,986)</b>	<b>(722,115)</b>	<b>(2,992,101)</b>

## DBS BANK (CHINA) LIMITED

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#### 48 FINANCIAL RISK MANAGEMENT (continued)

##### 48.7 Capital management

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

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

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

	31 December 2012	31 December 2011
<b>Tier 1 capital</b>		
Paid-in capital	6,300,000,000	4,000,000,000
Capital surplus	22,571,343	22,571,343
Revaluation reserve for available-for-sale securities	(8,924,273)	(28,981,959)
Surplus reserve	159,943,560	129,327,810
General risk reserve	587,500,000	476,000,000
Undistributed profits	847,332,142	687,950,286
Less: unrealized fair value gains of financial liabilities designated at fair value through profit or loss (i)	-	(4,881,162)
Other Tier 1 Capital	16,111,707	-
<b>Net Tier 1 Capital</b>	<b>7,924,534,479</b>	<b>5,281,986,318</b>
<b>Tier 2 capital</b>	<b>4,659,890</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>7,929,194,369</b>	<b>5,281,986,318</b>
<b>Total risk-weighted assets</b>	<b>42,510,605,552</b>	<b>38,718,453,880</b>
<b>Core capital adequacy ratio</b>	<b>18.64%</b>	<b>13.64%</b>
<b>Capital adequacy ratio</b>	<b>18.65%</b>	<b>13.64%</b>

- (i) In accordance with "Notice issued by CBRC regarding calculation of Capital Adequacy Ratios for Banks adopting New CAS" (Yin Jian Fa [2007] No. 82), unrealised fair value gains from financial assets or liabilities designated at fair value through profit or loss should be excluded from tier 1 capital base, after deducting the impact of corporate income tax.

#### 49 RECLASSIFICATION OF COMPARATIVE FIGURES

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