

DBS BANK (CHINA) LIMITED

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

[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 2015**

Content	Page
REPORT OF THE AUDITORS	1-2
BALANCE SHEET	3
INCOME STATEMENT	4
CASH FLOW STATEMENT	5-6
STATEMENT OF CHANGES IN OWNER'S EQUITY	7
NOTES TO THE FINANCIAL STATEMENTS	8-74

(English Translation For Reference Only)

AUDITOR'S REPORT

PwC ZT Shen Zi (2015) No. 20950

(Page 1 of 2)

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

We have audited the accompanying financial statements of DBS Bank (China) Limited (hereinafter "the Bank"), which comprise the balance sheet as at 31 December 2015, the income statement, the cash flow statement and the statement of changes in owners' equity for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(English Translation For Reference Only)

AUDITOR'S REPORT
(continued)

PwC ZT Shen Zi (2016) No. 20950
(Page 2 of 2)

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

29 January 2016

DBS BANK (CHINA) LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2015

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

ASSETS	Notes	31 December 2015	31 December 2014
Cash and deposits with the central bank	8	13,362,609,997	14,641,751,532
Deposits with other banks	9	6,925,513,605	6,808,957,502
Placements with financial institutions	10	13,240,691,855	9,869,974,765
Financial assets at fair value through profit or loss	11	7,618,299,803	6,404,708,433
Derivative assets	12	4,806,314,003	2,466,125,887
Financial assets purchased under resale agreements	13	494,955,518	2,018,231,539
Interest receivable	14	593,617,829	676,851,270
Loans and advances	15	43,885,568,262	51,312,240,968
Investment securities - available-for-sale	16	2,800,599,654	3,114,560,775
Investment securities - loans and receivables	17	443,136,830	-
Fixed assets	18	110,128,641	84,394,404
Long-term prepaid expenses	19	20,279,529	19,507,951
Deferred income tax assets	20	406,120,475	305,382,068
Other assets	21	620,919,855	331,279,100
TOTAL ASSETS		95,328,755,856	98,053,966,194
LIABILITIES	Notes	31 December 2015	31 December 2014
Deposits from other banks and financial institutions	22	15,829,395,448	3,545,531,502
Borrowing from other banks	23	11,662,502,133	8,902,778,114
Derivative liabilities	12	4,740,121,285	2,464,821,531
Financial assets sold under repurchase agreements	24	3,518,960,169	2,249,084,549
Due to customers	25	44,987,410,107	68,440,297,462
Payroll and welfare payable	26	142,189,048	145,485,453
Taxes payable	27	131,349,198	205,559,525
Interest payable	28	873,371,009	1,052,884,293
Bonds issued	29	3,495,605,196	2,001,569,222
Other liabilities	30	1,280,330,098	530,933,642
TOTAL LIABILITIES		86,661,233,691	89,538,945,293
OWNER'S EQUITY			
Paid-in capital	31	6,300,000,000	6,300,000,000
Capital surplus	32	22,571,343	22,571,343
Other comprehensive income	44	31,815,959	(611,516)
Surplus reserve	33	231,313,487	219,306,108
General risk reserve	34	945,200,000	872,700,000
Undistributed profits	35	1,136,621,376	1,101,054,966
TOTAL OWNER'S EQUITY		8,667,522,165	8,515,020,901
TOTAL LIABILITIES AND OWNER'S EQUITY		95,328,755,856	98,053,966,194

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

 Chairman:
Dominic Ho

 CEO:
Neil Ge

 CFO:
Cristo Chow

DBS BANK (CHINA) LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

	Notes	2015	2014
Interest income	36	3,980,017,268	4,705,702,727
Interest expense	36	(2,399,506,288)	(2,695,482,783)
Net interest income		1,580,510,980	2,010,219,944
Fee and commission income	37	418,785,431	465,901,177
Fee and commission expenses	37	(71,967,357)	(53,450,427)
Net fee and commission income		346,818,074	412,450,750
Investment gains	38	149,994,376	129,712,903
Fair value gains/(losses)	39	150,032,583	(42,631,470)
Net gains from foreign exchange and derivative transactions	40	462,339,203	449,450,294
Other business income		4,196,838	89,085
Operating income		2,693,892,054	2,959,291,506
Business tax and levies		(223,187,968)	(253,175,920)
General and administrative expenses	41	(1,717,150,149)	(1,627,939,445)
Asset impairment losses	42	(612,998,854)	(615,885,901)
Operating expense		(2,553,336,971)	(2,497,001,266)
Operating profit		140,555,083	462,290,240
Non-operating income		25,960,722	20,925,790
Non-operating expenses		(1,177,258)	(15,496,606)
Total profit		165,338,547	467,719,424
Less: Income tax	43	(45,264,758)	(115,147,354)
Net profit		120,073,789	352,572,070
Net Other comprehensive income			
Other comprehensive income which will be reclassified to profit or loss subsequently			
-Gains or losses arising from changes in fair value of available-for-sale financial assets	44	32,427,475	16,636,772
Total comprehensive income		152,501,264	369,208,842

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Cristo Chow

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

	Notes	2015	2014
1 Cash flows from operating activities			
Net increase in customer deposits and deposits from other banks and financial institutions		-	1,765,030,908
Net decrease in deposits with the central bank and other banks		4,632,133,862	1,752,513,312
Net decrease in loans and advances		6,899,702,360	-
Net increase in borrowing from other banks		2,759,724,019	-
Net decrease in placements with financial institutions		-	3,082,019,428
Net increase in financial assets sold under repurchase agreements		1,269,875,620	2,249,084,549
Net decrease in financial assets purchased under resale agreements		1,523,276,021	839,381,300
Interest received		3,937,329,626	4,479,023,980
Fee and commission received		418,785,431	488,863,167
Cash received relating to other operating activities		1,143,047,071	463,547,117
Sub-total of cash inflow		22,583,874,010	15,119,463,761
Net increase in loans and advances		-	(3,846,396,984)
Net decrease in customer deposits and deposits from other banks and financial institutions		(11,169,023,409)	-
Net decrease in borrowing from other banks		-	(1,753,311,986)
Net increase in placements with financial institutions		(2,238,431,903)	-
Net increase in financial assets at fair value through profit or loss		-	(2,713,015,152)
Interest paid		(2,483,281,650)	(2,823,002,733)
Fee and commission paid		(71,967,357)	(53,450,427)
Cash paid to employees		(1,035,164,920)	(937,531,719)
Payment of taxes		(454,210,619)	(420,838,500)
Cash paid relating to other operating activities		(1,009,510,775)	(638,907,361)
Sub-total of cash outflow		(18,461,590,633)	(13,186,454,862)
Net cash provided from operating activities	45	4,122,283,377	1,933,008,899

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

	Notes	2015	2014
2 Cash flows from investing activities			
Cash received from disposal of investment securities - available-for-sale		5,623,782,751	2,444,945,503
Interest received from investment securities		125,921,083	119,243,225
Cash received from disposal of fixed assets		2,332,844	5,010,847
Sub-total of cash inflow		<u>5,752,036,678</u>	<u>2,569,199,575</u>
Cash paid for purchase of investment securities-loans and receivables		(446,422,500)	-
Cash paid for purchase of investment securities-available-for-sale		(5,260,000,000)	(3,810,000,000)
Cash paid for purchase of fixed assets and other long-term assets		(78,054,199)	(54,111,748)
Sub-total of cash outflow		<u>(5,784,476,699)</u>	<u>(3,864,111,748)</u>
Net cash used in investing activities		<u>(32,440,021)</u>	<u>(1,294,912,173)</u>
3 Cash flows from financing activities			
Cash received from bonds issuance		1,994,035,974	-
Sub-total of cash inflow		<u>1,994,035,974</u>	<u>-</u>
Cash payments for bonds issuance		(500,000,000)	-
Cash payments for bonds interest expenses		(95,737,922)	(96,661,036)
Sub-total of cash outflow		<u>(595,737,922)</u>	<u>(96,661,036)</u>
Net cash flows provided from/(used in) financing activities		<u>1,398,298,052</u>	<u>(96,661,036)</u>
4 Effect of foreign exchange rate changes on cash and cash equivalents		<u>133,929,191</u>	<u>6,164,574</u>
5 Net increase in cash and cash equivalents		<u>5,622,070,599</u>	<u>547,600,264</u>
Add: Cash and cash equivalents at beginning of year		<u>13,009,588,700</u>	<u>12,461,988,436</u>
6 Cash and cash equivalents at end of year	45	<u><u>18,631,659,299</u></u>	<u><u>13,009,588,700</u></u>

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Cristo Chow

DBS BANK (CHINA) LIMITED

**STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

	Paid-in capital Note 31	Capital surplus Note 32	Other comprehensive income Note 44	Surplus reserve Note 33	General risk reserve Note 34	Undistributed profits Note 35	Total owners' equity
Balance at 31 December 2013	6,300,000,000	22,571,343	(17,248,288)	184,048,901	805,900,000	850,540,103	8,145,812,059
Changes in accounting policy	-	-	-	-	-	-	-
Balance at 1 January 2014	6,300,000,000	22,571,343	(17,248,288)	184,048,901	805,900,000	850,540,103	8,145,812,059
Comprehensive income							
Net profit for the year of 2014	-	-	-	-	-	352,572,070	352,572,070
Other comprehensive income	-	-	16,636,772	-	-	-	16,636,772
Total comprehensive income	-	-	16,636,772	-	-	352,572,070	369,208,842
Profit distribution							
Transfer to general risk reserve	-	-	-	-	66,800,000	(66,800,000)	-
Transfer to surplus reserve	-	-	-	35,257,207	-	(35,257,207)	-
Balance at 31 December 2014	6,300,000,000	22,571,343	(611,516)	219,306,108	872,700,000	1,101,054,966	8,515,020,901
Comprehensive income							
Net profit for the year of 2015	-	-	-	-	-	120,073,789	120,073,789
Other comprehensive income	-	-	32,427,475	-	-	-	32,427,475
Total comprehensive income	-	-	32,427,475	-	-	120,073,789	152,501,264
Profit distribution							
Transfer to general risk reserve	-	-	-	-	72,500,000	(72,500,000)	-
Transfer to surplus reserve	-	-	-	12,007,379	-	(12,007,379)	-
Balance at 31 December 2015	6,300,000,000	22,571,343	31,815,959	231,313,487	945,200,000	1,136,621,376	8,667,522,165

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Cristo Chow

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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 Retained Branch was closed on 30 December 2015.

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.

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

2 BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis.

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2015 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 2015 and of the financial performance, cash flows and other information for the year then ended.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

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's financial statements are presented in Renminbi ("RMB"), which is its functional currency, being the currency of the primary economic environment in which the Bank operates.

C Foreign currency translation

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

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

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

D Cash and cash equivalents

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

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 (including derivatives embedded in other contracts but separated for accounting purposes) are also categorised as held for trading unless they are designated as hedges in accordance with (Note 4 (H)).

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

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise;
- 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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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)

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

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 financial institutions, financial assets purchased under resale agreements, 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. The Bank also holds such financial assets for the purpose of investment or satisfying regulatory liquidity requirements. 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. Financial assets in this category are held in certain business segments as well as the liquidity management unit. 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. Unrealised gains or losses arising from changes in fair value of financial assets classified as available-for-sale financial assets are recognised in other comprehensive income and accumulated directly in equity after deducting tax impact. When sold or impaired, the accumulated fair value adjustments previously recognised in equity are reclassified to the income statement.

(4) 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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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)

(5) De-recognition of financial assets and financial liabilities

Financial assets are derecognized when: (1) the rights to receive cash flows from the financial assets have expired; (2) the financial assets are transferred and the Bank has transferred substantially all risks and rewards of ownership; (3) the Bank does not transfer or retain nearly all the risks and rewards relating to the ownership of the financial asset, but the Bank waives its control over the financial assets. When financial assets are derecognized, the difference between carrying amount and accumulated amount of fair value that was directly booked into equity (refer to transfer available-for-sale financial assets) was booked into profit or loss. Financial liabilities are derecognized when they are extinguished - that is, when the obligation is discharged, canceled or expires. When derecognized, the difference between carrying amount and received amount was booked into profit or loss.

(6) Fair value of financial assets and financial liabilities

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

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

F Impairment of financial assets

(1) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is evidence that a financial asset or a 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 criteria that the Bank uses to determine whether there is evidence of an impairment loss include:

- (i) Significant financial difficulty of the issuer or obligor, including breach of covenants and/or financial conditions;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) granting of a concession to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the Bank would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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)

- (v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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

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

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

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the recovery procedures have been exhausted and the amount of the loss has been determined. Recoveries in full or in part of amounts previously written off are credited to the amount of the impairment losses for loans and advances in the income statement.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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)

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 classified as available-for-sale

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 the income statement, is removed from owner's 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. But impairment losses on equity instruments that are not quoted in an active market and are not reliably estimated with fair value, or impairment losses on derivative assets set off by delivering equity instruments can not be reversed.

G Offsetting financial instruments

Financial assets and liabilities are presented net when:

- (i) There is a legally enforceable right to set off the recognized amounts;
- (ii) there is an intention to settle them 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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

4 PRINCIPAL ACCOUNTING POLICIES(continued)

H Derivative financial instruments (continued)

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:

- (i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- (iii) 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.

Hedge accounting

At the inception of each hedging relationship, the Bank documents the relationship between the hedging instrument and hedged item; the risk management objective for undertaking the hedge transaction; and the methods used to assess the effectiveness of the hedge. At inception and on an on-going basis, the Bank also documents its assessment of whether the hedging instrument is highly effective in offsetting changes in the fair value of the hedged item.

Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

For a qualifying fair value hedge, the changes in the fair value of the hedging derivatives are recorded in the income statement, together with any changes in the fair value of the hedged item attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over its remaining maturity, using the effective interest method.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

4 PRINCIPAL ACCOUNTING POLICIES (continued)

I Fixed assets

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

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

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

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

	Estimated useful lives	Estimated residual value	Depreciation rate
Office 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

4 PRINCIPAL ACCOUNTING POLICIES(continued)

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.

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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

4 PRINCIPAL ACCOUNTING POLICIES(continued)

M Fee and commission income/expense

Fee and commission incomes are generally recognized on the percentage of completion method when the related service has been provided. Fees and commission expenses are generally recognized on an accrual basis when the related service has been received.

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.

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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

4 PRINCIPAL ACCOUNTING POLICIES(continued)

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.

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee is given. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the initial measurement less amortisation and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

The contractual amounts of financial guarantee contracts are disclosed as off-balance sheet items in Note 46.

R Employee benefits

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

(1) Short-term employee benefits

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

(2) Post-employment benefits

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

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

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

4 PRINCIPAL ACCOUNTING POLICIES(continued)

R Employee benefits(continued)

(3) Share Based Payment

All the employees of the Bank enjoy the equity-settled stock incentive plan implemented by the DBS Group Holding Ltd. ("DBS Group"), under which the Bank provides shares issued by DBS Group to all the employees for exchange of services they provided. Such shares provided are recognised in the Bank's income statement according to the fair value of the equity instruments at the grant date and amortized over the vesting period with a corresponding adjustment to the payable to 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 economic benefits 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 Bank reviews carrying value of provision on date of balance sheet, and adjust the carrying value to indicate the best estimates.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

4 PRINCIPAL ACCOUNTING POLICIES(continued)

T Segment Reporting

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

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

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

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 a regular 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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

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. The valuation models (like cash flow discount model) are periodically evaluated and validated by the specialists with professional qualifications, who are independent of the designers of the models. To the extent practical, cash flow models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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.

6 AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were authorized for issue by Board of Directors on 29 January 2016.

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

The applicable corporate income tax rate for 2015 is 25% (2014: 25%).

8 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2015	31 December 2014
Cash	54,513,275	56,417,839
Statutory deposit reserve with the central bank	5,664,052,856	11,258,730,336
Excess deposit reserve with the central bank	7,181,500,250	3,326,603,357
Foreign exchange risk reserve with central bank	462,543,616	-
	<u>13,362,609,997</u>	<u>14,641,751,532</u>

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

8 CASH AND DEPOSITS WITH THE CENTRAL BANK(continued)

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 2015(31 December 2014: 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 15% at 31 December 2015(31 December 2014: 18%). RMB deposit reserve bears interest at annual rate of 1.62% (2014: 1.62%).

These statutory reserve deposits are limited to fund the Bank's operations.

9 DEPOSITS WITH OTHER BANKS

	31 December 2015	31 December 2014
Deposits with domestic banks	4,556,362,574	6,179,235,349
Deposits with overseas banks	2,162,080,265	420,600,678
Deposits with overseas related parties (Note 49(e)(3)(i))	207,070,766	209,121,475
	<u>6,925,513,605</u>	<u>6,808,957,502</u>

10 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Placements with domestic banks	408,301,855	622,607,568
Placements with domestic financial institutions	10,632,390,000	8,084,757,197
Placements with overseas related parties (Note 49(e)(3)(i))	2,200,000,000	1,162,610,000
	<u>13,240,691,855</u>	<u>9,869,974,765</u>

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2015	31 December 2014
Investments in debenture held for trading		
Bonds issued by policy banks	5,980,540,389	3,889,819,958
Corporate bonds	160,307,184	1,592,553,549
Treasury bonds	90,510,879	40,229,148
Negotiable certificates of deposit	1,386,941,351	882,105,778
	<u>7,618,299,803</u>	<u>6,404,708,433</u>

As at 31 December 2015, trading assets amounting to RMB 2,560,000,000 were pledged as collateral under repurchase agreements with other banks. As at 31 December 2014, trading assets amounting to RMB 1,090,000,000 were pledged as collateral under repurchase agreements with other banks.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

12.1 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.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.1 DERIVATIVE INSTRUMENTS(continued)

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 exchange 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.

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

31 December 2015	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	21,725,740,070	357,760,045	(145,709,070)
Foreign exchange swap	319,675,811,268	2,525,389,642	(2,937,945,158)
Foreign exchange option	77,754,150,814	523,193,204	(300,123,924)
Cross-currency swap	1,349,062,615	48,143,432	(19,630,336)
	<u>420,504,764,767</u>	<u>3,454,486,323</u>	<u>(3,403,408,488)</u>
Interest rate derivatives			
Interest rate swap	587,318,018,244	1,184,890,652	(1,166,880,118)
Interest rate cap and floor	25,073,482,225	12,205,938	(11,966,352)
	<u>612,391,500,469</u>	<u>1,197,096,590</u>	<u>(1,178,846,470)</u>
Equity derivatives	<u>1,684,054,499</u>	<u>15,875,709</u>	<u>(17,378,745)</u>
Commodity derivatives	<u>4,071,875,387</u>	<u>138,855,381</u>	<u>(140,487,582)</u>
Total	1,038,652,195,122	4,806,314,003	(4,740,121,285)

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.1 DERIVATIVE INSTRUMENTS(continued)

31 December 2014	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	22,912,647,304	228,543,897	(46,117,300)
Foreign exchange swap	344,480,502,049	1,130,281,817	(1,355,807,294)
Foreign exchange option	24,957,242,445	126,190,910	(101,130,221)
Cross-currency swap	2,465,539,761	28,758,261	(13,139,841)
	<u>394,815,931,559</u>	<u>1,513,774,885</u>	<u>(1,516,194,656)</u>
Interest rate derivatives			
Interest rate swap	306,436,041,254	732,587,232	(718,368,450)
Interest rate cap and floor	62,533,332,940	109,232,678	(114,520,894)
	<u>368,969,374,194</u>	<u>841,819,910</u>	<u>(832,889,344)</u>
Equity derivatives	<u>2,594,674,246</u>	<u>40,920,578</u>	<u>(46,391,471)</u>
Commodity derivatives	<u>4,743,216,422</u>	<u>69,610,514</u>	<u>(69,346,060)</u>
Total	<u>771,123,196,421</u>	<u>2,466,125,887</u>	<u>(2,464,821,531)</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.2 HEDGE ACCOUNTING

As at 31 December 2015, derivative contracts designated as hedging instruments by the Bank are as follows:

	notional amount	Fair Value	
		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	930,000,000	372,960	-

As at 31 December 2014, derivative contracts designated as hedging instruments by the Bank are as follows:

	notional amount	Fair Value	
		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	930,000,000	2,390,425	-

Fair Value Hedge

The Bank uses interest rate swaps to hedge against changes in the fair value of bonds issued.

Net (loss)/gain on fair value hedges are as follows:

	2015	2014
—hedging instruments	(2,017,464)	14,135,694
—hedged items: bonds issued	1,119,737	(13,581,544)
Net (loss)/gain on fair value hedges	897,272	554,150

13 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December 2015	31 December 2014
Financial assets purchased under resale agreements designated at fair value through profit or loss, at fair value	494,955,518	2,018,231,539

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 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

14 INTEREST RECEIVABLE

	31 December 2015	31 December 2014
Loans and advances	264,285,454	388,154,136
Deposits and placements with financial institutions	66,391,346	89,018,417
Financial assets at fair value through profit or loss	189,765,039	96,472,900
Investment securities - available-for-sale	69,476,121	78,267,903
Deposits with the central bank	3,367,713	5,905,461
Financial assets purchased under resale agreements	83,540	19,032,453
Investment securities - loans and receivables	248,616	-
	<u>593,617,829</u>	<u>676,851,270</u>
	31 December 2014	31 December 2015
	Increase in current year	Decrease in current year
Interest receivable	676,851,270	3,980,017,268
		(4,063,250,709)
		593,617,829

15 LOANS AND ADVANCES

	31 December 2015	31 December 2014
Retail loans		
-Mortgage loans	4,840,099,435	4,724,108,320
-Others	<u>1,226,347,943</u>	<u>1,542,078,858</u>
	<u>6,066,447,378</u>	<u>6,266,187,178</u>
Corporate loans and advances		
-Loans	29,070,274,247	31,867,522,392
-Trade finance	8,295,254,828	8,168,082,712
-Discounted bills and others	<u>1,625,682,192</u>	<u>6,252,713,447</u>
	<u>38,991,211,267</u>	<u>46,288,318,551</u>
Total loans	<u>45,057,658,645</u>	<u>52,554,505,729</u>
Individual impairment allowance	(138,965,870)	(368,793,120)
Collective impairment allowance	<u>(1,033,124,513)</u>	<u>(873,471,641)</u>
Total impairment allowance	<u>(1,172,090,383)</u>	<u>(1,242,264,761)</u>
Loans and advances, net	<u>43,885,568,262</u>	<u>51,312,240,968</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

15 LOANS AND ADVANCES (continued)

(1) Industry sector:

	31 December 2015		31 December 2014	
	Balance	%	Balance	%
Retail loans	6,066,447,378	13%	6,266,187,178	12%
Manufacturing	13,996,841,136	31%	17,540,531,544	34%
Wholesale and retail business	12,557,725,128	28%	14,859,860,300	28%
Real estate	8,285,718,423	18%	6,336,841,807	12%
Leasing and commercial services	926,296,047	2%	2,033,377,459	4%
Construction	970,848,052	2%	1,123,308,079	2%
Agriculture, Hunting, Forestry and Fishing	269,334,465	1%	701,665,528	1%
Transportation, storage and postal	429,555,897	1%	1,152,435,364	2%
Mining industry	426,625,200	1%	545,320,214	1%
Information and technology	158,627,809	-	511,661,520	1%
Hotel and restaurant	176,710,521	-	308,275,334	1%
Technical services	74,527,680	-	64,867,295	-
Resident services and other services	-	-	38,022,995	-
Others	718,400,909	2%	1,072,151,112	2%
Total gross	45,057,658,645	100%	52,554,505,729	100%

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

15 LOANS AND ADVANCES (continued)

(2) Geographic sector:

	31 December 2015	31 December 2014
Shanghai	23,977,689,031	24,950,491,466
Beijing	5,403,113,783	8,969,671,133
Shenzhen	4,024,030,699	4,934,862,670
Chongqing	3,455,943,187	2,884,182,352
Guangzhou	2,531,882,265	3,380,756,304
Tianjin	1,774,675,516	3,101,314,731
Suzhou	1,233,692,039	1,811,155,314
Hangzhou	827,176,471	1,134,601,984
Others	1,829,455,654	1,387,469,775
Total gross	<u>45,057,658,645</u>	<u>52,554,505,729</u>

(3) By type of collateral and guarantee:

	31 December 2015	31 December 2014
Clean loans	10,694,879,598	16,476,007,431
With guarantee only	8,092,016,608	9,660,917,421
With collateral only	11,893,910,435	12,217,503,597
With both collateral and guarantee	14,376,852,004	14,200,077,280
Total gross	<u>45,057,658,645</u>	<u>52,554,505,729</u>

DBS BANK (CHINA) LIMITED
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

15 LOANS AND ADVANCES (continued)

(4) Loans and advances past due:

31 December 2015					
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	Total
Clean loans	-	56,786,863	58,336,010	-	115,122,873
With guarantee only	132,359,703	6,675,314	2,845,857	-	141,880,874
With collateral only	172,636,559	33,166,022	21,793,930	6,498,598	234,095,109
With both collateral and guarantee	347,202,140	357,774,343	204,527,844	45,551,692	955,056,019
Total gross	652,198,402	454,402,542	287,503,641	52,050,290	1,446,154,875

31 December 2014					
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	Total
Clean loans	-	4,451,320	68,491,628	10,547,801	83,490,749
With guarantee only	21,071,194	8,136,479	19,054,529	-	48,262,202
With collateral only	207,048,166	20,057,916	29,342,479	8,133,852	264,582,413
With both collateral and guarantee	245,266,241	177,267,290	197,923,770	40,552,169	661,009,470
Total gross	473,385,601	209,913,005	314,812,406	59,233,822	1,057,344,834

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

2015			
	Individually assessed	Collectively assessed	Total
At 1 January	368,793,120	873,471,641	1,242,264,761
Impairment losses for loans and advances (Note 42)	376,198,501	159,652,872	535,851,373
Write-off	(600,794,832)	-	(600,794,832)
Exchange difference	(5,230,919)	-	(5,230,919)
At 31 December	138,965,870	1,033,124,513	1,172,090,383

2014			
	Individually assessed	Collectively assessed	Total
At 1 January	248,658,205	446,674,517	695,332,722
Impairment losses for loans and advances (Note 42)	188,335,298	426,797,124	615,132,422
Write-off	(68,305,139)	-	(68,305,139)
Exchange difference	104,756	-	104,756
At 31 December	368,793,120	873,471,641	1,242,264,761

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

16 INVESTMENT SECURITIES - AVAILABLE-FOR-SALE

	31 December 2015	31 December 2014
At fair value		
Corporate bonds	136,609,475	232,509,282
Treasury bonds	251,981,996	650,486,820
PBOC notes	100,601,267	99,916,986
Bonds issued by policy banks	2,311,406,916	2,131,647,687
	<u>2,800,599,654</u>	<u>3,114,560,775</u>

As at 31 Dec 2015, the amount of available for sale financial assets pledged is RMB 1,040,000,000. The amount of available for sale financial assets pledged is RMB 1,210,000,000 at 31 Dec 2014.

17 INVESTMENT SECURITIES – LOANS AND RECEIVABLES

	31 December 2015	31 December 2014
Assets backed securities	446,422,500	-
Impairment allowance-collectively assessed	(3,285,670)	-
	<u>443,136,830</u>	<u>-</u>

18 FIXED ASSETS

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 2015	97,162,558	159,417,085	256,579,643
Add: Transfer-in and other addition	13,895,463	53,560,278	67,455,741
Less: Disposal/write-off	(7,720,725)	(4,205,414)	(11,926,139)
At 31 December 2015	<u>103,337,296</u>	<u>208,771,949</u>	<u>312,109,245</u>
Accumulated depreciation			
At 1 January 2015	68,110,990	104,074,249	172,185,239
Add: Charge for the year	10,188,298	28,966,874	39,155,172
Less: Disposal/write-off	(5,939,517)	(3,420,290)	(9,359,807)
At 31 December 2015	<u>72,359,771</u>	<u>129,620,833</u>	<u>201,980,604</u>
Net book value			
At 31 December 2015	<u>30,977,525</u>	<u>79,151,116</u>	<u>110,128,641</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

18 FIXEDASSETS(continued)

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 2014	85,136,204	141,822,717	226,958,921
Add: Transfer-in and other addition	17,737,073	30,595,369	48,332,442
Less: Disposal/write-off	(5,710,719)	(13,001,001)	(18,711,720)
At 31 December 2014	97,162,558	159,417,085	256,579,643
Accumulated depreciation			
At 1 January 2014	57,774,938	82,277,616	140,052,554
Add: Charge for the year	14,298,445	22,637,392	36,935,837
Less: Disposal/write-off	(3,962,393)	(840,759)	(4,803,152)
At 31 December 2014	68,110,990	104,074,249	172,185,239
Net book value			
At 31 December 2014	29,051,568	55,342,836	84,394,404

19 LONG-TERM PREPAID EXPENSES

	Leasehold improvement	Others	Total
As at 1 January 2015	18,249,357	1,258,594	19,507,951
Additions	10,598,459	-	10,598,459
Transfer-out	(827,601)	-	(827,601)
Amortization	(8,081,305)	(917,975)	(8,999,280)
As at 31 December 2015	19,938,910	340,619	20,279,529
As at 1 January 2014	22,672,542	1,374,139	24,046,681
Additions	9,423,901	-	9,423,901
Transfer-out	(3,644,596)	-	(3,644,596)
Amortization	(10,202,490)	(115,545)	(10,318,035)
As at 31 December 2014	18,249,357	1,258,594	19,507,951

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

20 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 2014: 25%).

The movements of deferred taxation are shown as below:

	2015	2014
At beginning of year	305,382,068	173,421,744
Income statement credit (Note 43)	111,547,566	137,505,914
Available-for-sale securities		
-Fair value measurement(Note 44)	(10,809,159)	(5,545,590)
At end of year	<u>406,120,475</u>	<u>305,382,068</u>

(1) Deferred tax assets

	31 December 2015		31 December 2014	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for loan impairment	313,231,511	1,252,926,045	197,650,914	790,603,656
Provision for other assets impairment	26,812,964	107,251,854	5,305,836	21,223,346
Fair value measurement of available-for-sale securities	-	-	203,839	815,355
Changes in fair value	-	-	5,429,198	21,716,790
Share based incentive plan payment not exercised	8,920,021	35,680,084	4,859,432	19,437,727
Accrued expenses	99,775,706	399,102,825	91,932,849	367,731,398
Losses for disposal of foreclosed assets	64,543	258,173	-	-
	<u>448,804,745</u>	<u>1,795,218,981</u>	<u>305,382,068</u>	<u>1,221,528,272</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

20 DEFERRED INCOME TAX ASSETS(continued)

(1) Deferred tax assets(continued)

The estimated amount to be recovered comprised:

	31 December 2015		31 December 2014	
Within 1 year (including 1 year)	99,775,706	399,102,825	107,212,181	428,848,725
After 1 year	349,029,039	1,396,116,156	198,169,887	792,679,547
	<u>448,804,745</u>	<u>1,795,218,981</u>	<u>305,382,068</u>	<u>1,221,528,272</u>

(2) Deferred tax liabilities

	31 December 2015		31 December 2014	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
Changes in fair value	(32,078,950)	(128,315,794)	-	-
Fair value measurement of available-for-sale securities	(10,605,320)	(42,421,278)	-	-
	<u>(42,684,270)</u>	<u>(170,737,072)</u>	<u>-</u>	<u>-</u>

The estimated amount to be recovered comprised:

Within 1 year (including 1 year)	(2,754,259)	(11,017,035)	-	-
After 1 year	(39,930,011)	(159,720,037)	-	-
	<u>(42,684,270)</u>	<u>(170,737,072)</u>	<u>-</u>	<u>-</u>

(3) The net balances of deferred tax assets and liabilities after offsetting are as follows:

	31 December 2015	31 December 2014
Deferred tax assets, net	<u>406,120,475</u>	<u>305,382,068</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

21 OTHER ASSETS

	31 December 2015	31 December 2014
Security Deposits & Guarantee fund	312,774,887	94,664,174
Receivables from related parties (Note 49(e)(3)(iii))	14,248,367	36,295,384
Settlement receivables from customers	308,956,198	190,694,286
Provision for settlement receivables from customers	(35,115,254)	(21,223,346)
Net settlement receivables from customers	273,840,944	169,470,940
Prepaid expenses	17,849,843	22,997,604
Others	2,205,814	7,850,998
	<u>620,919,855</u>	<u>331,279,100</u>

	31 December 2014				31 December 2015
Settlement receivables from customers	<u>190,694,286</u>	Impairment losses	Write off	Foreign Exchange difference	308,956,198
Minus: Provision for settlement receivables from customers	<u>(21,223,346)</u>	<u>(82,742,838)</u>	<u>64,879,087</u>	<u>3,971,843</u>	<u>(35,115,254)</u>
	<u>169,470,940</u>				<u>273,840,944</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

22 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Deposits from financial institutions	2,343,319,405	69,792,584
Deposits from domestic related parties (Note 49(e)(3)(iv))	-	237,018,501
Deposits from overseas related parties (Note 49(e)(3)(iv))	13,486,076,043	3,238,720,417
	<u>15,829,395,448</u>	<u>3,545,531,502</u>

23 BORROWING FROM OTHER BANKS

	31 December 2015	31 December 2014
Placements from domestic banks	5,172,120,000	3,982,157,000
Placements from overseas related parties (Note 49(e)(3)(iv))	6,490,382,133	4,920,621,114
	<u>11,662,502,133</u>	<u>8,902,778,114</u>

24 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2015	31 December 2014
Financial assets sold under repurchase agreements designated at fair value through profit or loss, at fair value	<u>3,518,960,169</u>	<u>2,249,084,549</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.

25 DUE TO CUSTOMERS

	31 December 2015	31 December 2014
At amortized cost		
Corporate current deposits	11,628,411,191	8,775,268,469
Corporate time deposits	15,398,240,353	22,139,305,361
Retail current deposits	1,445,824,951	1,442,902,175
Retail time deposits	2,719,820,979	2,586,736,424
SIPs sold to corporate customers	12,447,005,034	31,342,603,043
SIPs sold to retail customers	1,263,918,049	2,068,166,531
	<u>44,903,220,557</u>	<u>68,354,982,003</u>
SIPs designated at fair value through profit or loss		
SIPs sold to retail customers	84,189,550	85,315,459
	<u>84,189,550</u>	<u>85,315,459</u>
	<u>44,987,410,107</u>	<u>68,440,297,462</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

26 PAYROLL AND WELFARE PAYABLE

	31 December 2015	31 December 2014
Short-term employee benefits	136,525,018	140,424,133
Defined contribution plans	5,664,030	5,061,320
	<u>142,189,048</u>	<u>145,485,453</u>

27 TAXES PAYABLE

	31 December 2015	31 December 2014
Income tax payable	44,559,973	77,494,455
Business tax and surcharges	35,352,925	71,899,499
Withholding corporate tax	24,176,852	34,283,954
Withholding individual income tax and others	27,259,448	21,881,617
	<u>131,349,198</u>	<u>205,559,525</u>

28 INTEREST PAYABLE

	31 December 2015	31 December 2014
Due to customers	786,326,808	957,372,970
Bonds issued	72,128,015	84,154,795
Deposits / borrowing from other banks and financial institutions	14,213,377	10,966,895
Financial assets sold under repurchase agreements	702,809	389,633
	<u>873,371,009</u>	<u>1,052,884,293</u>

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Interest payable	<u>1,052,884,293</u>	2,399,506,288	(2,579,019,572)	<u>873,371,009</u>

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

29 BONDS ISSUED

	31 December 2015	31 December 2014
RMB bonds	<u>3,495,605,196</u>	<u>2,001,569,222</u>

On 7 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 it matured on 7 May 2015.

On 4 January 2013, the Bank issued a financial bond with notional amount of RMB 1,500 million in the PRC inter-bank market. The bond bears interest at annual rate of 4.65% and its maturity date is 7 Jan 2016.

On 17 December 2015, the Bank issued a Tier 2 capital bond with notional amount of RMB 2,000 million in the PRC inter-bank market. The bond bears interest at annual rate of 4.3% and its maturity date is 17 December 2025.

30 OTHER LIABILITIES

	31 December 2015	31 December 2014
Accrued expenses	142,170,486	152,987,568
Payable to overseas related parties (Note 49(e)(3)(viii))	625,235,219	171,426,769
Settlements payable	153,921,178	162,883,320
Unearned commission income	30,123,633	32,832,944
Unsettled bonds	300,339,393	-
Others	28,540,189	10,803,041
	<u>1,280,330,098</u>	<u>530,933,642</u>

31 PAID-IN CAPITAL

	31 December 2015	31 December 2014
Registered and fully paid by DBS Bank	<u>6,300,000,000</u>	<u>6,300,000,000</u>

The registered and paid-in capital is RMB 6.3 billion as of 31 December 2015, which has been verified by Ernst&Young Hua Ming CPAs Company Limited and PricewaterhouseCoopers Zhong Tian CPAs Limited Company.

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

32 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.

	31 December 2014	31 December 2015
Transfer of capital surplus recognised under the previous accounting system	<u>22,571,343</u>	<u>22,571,343</u>

33 SURPLUS RESERVE

	31 December 2015	31 December 2014
Reserve Fund		
At beginning of year	219,306,108	184,048,901
Current year addition	<u>12,007,379</u>	<u>35,257,207</u>
At end of year	<u>231,313,487</u>	<u>219,306,108</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
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

34 GENERAL RISK RESERVE

	31 December 2015	31 December 2014
At beginning of year	872,700,000	805,900,000
Current year addition	72,500,000	66,800,000
At end of year	<u>945,200,000</u>	<u>872,700,000</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 27 January 2015, the directors approved the appropriation to the Bank's general risk reserve amounting to RMB 72.5 million in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 945.2 million.

35 UNDISTRIBUTED PROFITS

On 29 January 2016, the directors approved the appropriation to the Bank's general risk reserve of RMB 45.6 million, in accordance with Circular Caijin No.20 issued in 2012.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

36 NET INTEREST INCOME

	2015	2014
Interest income:		
Loans and advances	2,697,865,641	3,195,231,802
Due from other banks and financial institutions	674,836,519	770,223,735
Deposits with the central bank	151,326,702	198,792,458
Financial assets at fair value through profit or loss	292,615,665	317,390,237
Investment securities – available- for-sale	119,015,619	80,952,437
Financial assets purchased under resale agreements	32,070,764	142,204,258
Investment securities - loans and receivables	6,905,464	-
Others	5,380,894	907,800
	<u>3,980,017,268</u>	<u>4,705,702,727</u>
Interest expense:		
Due to other banks and financial institutions	(127,201,166)	(142,268,105)
Due to customers	(2,114,388,818)	(2,395,366,350)
Bonds issued	(83,711,142)	(96,661,036)
Financial assets sold under repurchase agreements	(74,205,162)	(55,775,220)
Others	-	(5,412,072)
	<u>(2,399,506,288)</u>	<u>(2,695,482,783)</u>
Net interest income	<u>1,580,510,980</u>	<u>2,010,219,944</u>
Comprising		
Interest income for financial assets at fair value through profit or loss	330,067,322	541,454,732
Interest income for financial assets not at fair value through profit or loss	3,649,949,946	4,164,247,995
Interest expense for financial liabilities at fair value through profit or loss	(74,205,162)	(60,381,097)
Interest expense for financial liabilities not at fair value through profit or loss	(2,325,301,126)	(2,635,101,686)
	<u>1,580,510,980</u>	<u>2,010,219,944</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

37 NET FEE AND COMMISSION INCOME

	2015	2014
Fee and commission income		
Settlement and clearing fees	191,210,737	275,918,010
Credit related fees and commissions	157,175,293	125,099,115
Others	70,399,401	64,884,052
	<u>418,785,431</u>	<u>465,901,177</u>
Fee and commission expense		
Settlement and clearing fees, brokerage expenses	<u>(71,967,357)</u>	<u>(53,450,427)</u>
Net fee and commission income	<u>346,818,074</u>	<u>412,450,750</u>

38 INVESTMENT GAINS

	2015	2014
Financial assets purchased under resale and sold under repurchase agreements	(3,278,359)	12,335,849
Financial assets at fair value through profit or loss	146,687,739	116,743,869
Investment securities –available-for-sale	6,584,996	633,185
	<u>149,994,376</u>	<u>129,712,903</u>

39 FAIR VALUE GAINS/(LOSSES)

	2015	2014
Net unrealized gains/(losses) on financial assets purchased under resale and sold under repurchase agreements	3,278,360	(17,872,215)
Net unrealized gains/(losses) on financial assets at fair value through profit or loss	47,786,385	(12,423,406)
Net unrealized gains/(losses) on derivative instruments	98,967,838	(12,335,849)
	<u>150,032,583</u>	<u>(42,631,470)</u>

40 NET GAINS FROM FOREIGN EXCHANGE AND DERIVATIVE TRANSACTIONS

	2015	2014
Net gains from foreign exchange and derivatives transactions	<u>462,339,203</u>	<u>449,450,294</u>

The amount represents net realized gains on foreign exchange and derivative transactions. The derivative transactions mainly include foreign exchange and interest rate derivatives.

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]**41 GENERAL AND ADMINISTRATIVE EXPENSES**

	2015	2014
Salaries and bonus	823,667,279	764,824,593
Social insurance and other welfare benefits	208,201,236	197,657,914
Share-based compensation plan	22,745,418	19,374,825
Telecommunications and computers	226,843,146	218,329,363
Rental and utilities	195,564,812	189,058,793
Depreciation and amortization	48,154,452	47,253,872
Travelling expenses	29,578,432	26,531,424
Business entertainment expenses	12,584,069	9,731,664
Staff training expenses	5,865,405	5,731,404
Others	143,945,900	149,445,593
	<u>1,717,150,149</u>	<u>1,627,939,445</u>

42 ASSET IMPAIRMENT LOSSES

	2015	2014
Impairment losses on loans and advances (Note 15(5))	535,851,373	615,132,422
Recovery of loans previously written-off	(8,881,027)	(20,469,867)
Impairment losses on other assets(Note 21)	82,742,838	21,223,346
Impairment losses on investment securities -loans and receivables(Note 17)	3,285,670	-
	<u>612,998,854</u>	<u>615,885,901</u>

43 INCOME TAX

	2015	2014
Current income tax	156,812,324	252,653,268
Deferred income tax (Note 20)	(111,547,566)	(137,505,914)
	<u>45,264,758</u>	<u>115,147,354</u>

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

	2015	2014
Profit before income tax	<u>165,338,547</u>	<u>467,719,424</u>
Income tax calculated at 25% (2014: 25%)	41,334,637	116,929,856
Annual tax filing differences	5,062,998	(1,782,502)
Non-taxable income	(5,183,381)	-
Additional deductible expenses	(189,033)	-
Non-deductible expenses	4,239,537	-
	<u>45,264,758</u>	<u>115,147,354</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

44 OTHER COMPREHENSIVE INCOME

- (1) Other comprehensive income, its impact on income tax and the status of reclassifying to profit or loss

	2015		
	Amount before tax	Income tax	Net after tax
Other comprehensive income items which will be reclassified subsequently to profit or loss			
Gains or losses arising from changes in fair value of available-for-sale financial assets	43,003,386	10,750,847	32,252,539
Less: Reclassification of other comprehensive income to profit or loss	(233,248)	(58,312)	(174,936)
Total other comprehensive income	43,236,634	10,809,159	32,427,475

	2014		
	Amount before tax	Income tax	Net after tax
Other comprehensive income items which will not be reclassified subsequently to profit or loss			
Gains or losses arising from changes in fair value of available-for-sale financial assets	11,505,273	2,876,318	8,628,955
Less: Reclassification of other comprehensive income to profit or loss	(10,677,089)	(2,669,272)	(8,007,817)
Total other comprehensive income	22,182,362	5,545,590	16,636,772

- (2) Reconciliation of other comprehensive income

	Gains or losses arising from changes in fair value of available-for-sale financial assets	Total other comprehensive income
31 December 2013	17,248,288	17,248,288
Movements for the year ended 31 December 2014	(16,636,772)	(16,636,772)
31 December 2014	611,516	611,516
Movements for the year ended 31 December 2015	(32,427,475)	(32,427,475)
31 December 2015	(31,815,959)	(31,815,959)

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

45 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2015	31 December 2014
Cash (Note 8)	54,513,275	56,417,839
Balances with the PBOC other than restricted reserve deposits (Note 8)	7,181,500,250	3,326,603,357
Deposits with other banks with original terms less than three months from acquisition date	6,025,513,605	6,408,957,504
Placements with financial institutions with original terms less than three months from acquisition date	4,349,895,187	3,217,610,000
	<u>17,611,422,317</u>	<u>13,009,588,700</u>

(2) Cash flows from operating activities

	Notes	2015	2014
Net profit		120,073,789	352,572,070
Adjusted by:			
Impairment charge for asset losses	42	621,879,881	636,355,768
Depreciation and amortization	41	48,154,452	47,253,872
Interest income for investment securities – available-for-sale and Investment securities - loans and receivables		(125,921,083)	(80,952,437)
Gains for investment securities – available-for-sale		(6,584,996)	-
Losses on disposal of fixed assets and other long-term assets		1,061,089	8,897,721
Interest expenses of bonds issued		83,711,142	96,661,036
Fair value (gains)/losses	39	(150,032,583)	42,631,470
Deferred income tax assets	43	(111,547,566)	(137,505,914)
Decrease/(Increase) in operating receivables		9,354,878,419	(1,383,591,393)
(Decrease)/Increase in operating payables		<u>(6,733,626,149)</u>	<u>2,350,686,706</u>
Net cash provided from operating activities		<u>3,102,046,395</u>	<u>1,933,008,899</u>

(3) Net increase in cash and cash equivalents:

Cash and cash equivalents at end of year	17,611,422,317	13,009,588,700
Less: cash and cash equivalents at beginning of year	<u>13,009,588,700</u>	<u>12,461,988,436</u>
Net increase in cash and cash equivalents	<u>4,601,833,617</u>	<u>547,600,264</u>

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

46 CONTINGENT LIABILITIES AND COMMITMENTS**(1) Off-balance sheet items**

	31 December 2015	31 December 2014
Letters of credit issued	5,906,445,522	24,758,826,200
Standby letter of credit	10,006,994,542	9,265,044,609
Letters of guarantee issued	1,030,442,218	1,456,592,403
Irrevocable loan commitment	2,460,165,488	1,914,115,400
Bank acceptances	1,620,584,959	1,845,711,700
Letters of credit confirmation	361,048,171	9,709,888
	<u>21,385,680,900</u>	<u>39,250,000,200</u>

(2) Operating lease commitments

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

	31 December 2015	31 December 2014
Within 1 year	153,431,509	179,341,483
Over 1 year less than 2 years	124,861,081	135,197,911
Over 2 year less than 3 years	38,592,162	106,843,038
Over 3 years	23,920,468	53,525,751
	<u>340,805,220</u>	<u>474,908,183</u>

(3) Legal proceedings

At 31 December 2015, there was no significant legal proceeding against the Bank (31 December 2014: nil).

(4) Capital commitments

As at 31 December 2015, the Bank has no significant capital commitments which require separate disclosure (31 December 2014: nil).

47 SUBSEQUENT EVENTS

On 29 January 2016, the directors approved the appropriation to the Bank's general risk reserve amounting to RMB 45.6 million in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 990.8 million.

Except that, there were no subsequent events after the balance sheet date which requires additional disclosure at 30 January 2015.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

48 SEGMENT INFORMATION

31 December 2015	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Chongqing	Others	Elimination	Total
Interest income	469,315,462	11,707,588,755	3,757,032,401	2,887,898,350	1,754,618,011	524,245,397	552,338,504	2,121,255,207	(19,794,274,819)	3,980,017,268
Interest expense	(561,475,362)	(10,933,591,740)	(3,474,004,567)	(2,638,586,400)	(1,648,413,570)	(469,453,710)	(460,875,468)	(1,957,380,290)	19,794,274,819	(2,399,506,288)
Net interest income	(92,159,900)	773,997,015	283,027,834	199,311,950	106,204,441	54,791,687	91,463,036	163,874,917	-	1,580,510,980
Fee and commission income	-	195,012,871	70,477,008	44,952,674	21,866,289	11,535,322	20,540,401	54,400,866	-	418,785,431
Fee and commission expenses	(991)	(71,349,890)	(171,567)	(273,086)	(58,739)	(12,736)	(2,422)	(97,926)	-	(71,967,357)
Net fee and commission income	(991)	123,662,981	70,305,441	44,679,588	21,807,550	11,522,586	20,537,979	54,302,940	-	346,818,074
Other income	81,704,331	340,166,656	115,610,509	82,840,337	67,503,880	12,827,890	11,769,764	54,139,633	-	766,563,000
Operating expenses	(217,658,523)	(1,135,791,029)	(461,803,379)	(246,034,412)	(139,310,905)	(35,030,842)	(50,344,153)	(267,363,728)	-	(2,553,336,971)
Non-operating income/(losses)	14,579,596	3,153,186	5,136,989	516,283	(420,708)	43,487	2,046,775	(272,144)	-	24,783,464
Total profit/(loss) before tax	(213,535,487)	105,188,809	12,277,394	81,313,746	55,784,258	44,154,808	75,473,401	4,681,618	-	165,338,547
Loans and advances, net	-	23,286,714,081	5,274,623,809	3,931,317,705	2,486,706,375	1,212,644,982	3,416,647,387	4,276,913,923	-	43,885,568,262
Total assets	6,925,956,620	66,175,679,097	11,558,059,606	6,085,584,753	3,929,552,566	2,587,779,208	3,628,795,624	8,123,991,419	(13,686,643,037)	95,328,755,856
Due to customers	(45,978,138)	(22,060,097,974)	(8,424,759,637)	(4,309,112,746)	(718,384,288)	(2,141,362,960)	(1,916,382,824)	(5,371,331,540)	-	(44,987,410,107)
Total liabilities	(3,963,837,799)	(64,001,885,647)	(10,691,100,438)	(5,142,056,649)	(3,474,135,921)	(2,343,189,166)	(3,428,469,281)	(7,303,201,827)	13,686,643,037	(86,661,233,691)
Impairment charge for credit losses	-	135,470,762	218,295,285	83,475,986	29,583,354	1,433,152	7,768,844	136,971,471	-	612,998,854
Depreciation and amortization	559,546	33,148,812	6,119,058	2,062,828	2,384,915	135,106	1,067,656	2,676,531	-	48,154,452
Capital expenditure	2,262,658	89,899,160	4,871,709	551,692	24,408	473,650	3,431,362	8,562,978	-	110,077,617

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

48 SEGMENT INFORMATION(continued)

31 December 2014	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Chongqing	Others	Elimination	Total
Interest income	485,276,778	9,330,076,879	2,918,617,969	2,177,747,963	1,328,489,692	436,145,627	377,010,769	1,898,494,789	(14,246,157,739)	4,705,702,727
Interest expense	(688,927,121)	(8,168,618,569)	(2,582,441,446)	(1,950,419,393)	(1,181,077,231)	(368,869,374)	(311,865,988)	(1,689,421,400)	14,246,157,739	(2,695,482,783)
Net interest income	(203,650,343)	1,161,458,310	336,176,523	227,328,570	147,412,461	67,276,253	65,144,781	209,073,389	-	2,010,219,944
Fee and commission income	-	188,965,568	100,337,888	58,828,281	29,989,118	9,818,205	11,354,446	66,607,671	-	465,901,177
Fee and commission expenses	(1,236)	(52,481,249)	(227,812)	(345,801)	(94,404)	(45,394)	(75,504)	(179,027)	-	(53,450,427)
Net fee and commission income	(1,236)	136,484,319	100,110,076	58,482,480	29,894,714	9,772,811	11,278,942	66,428,644	-	412,450,750
Other income	4,359,301	354,015,041	59,419,476	52,723,428	24,220,730	6,581,096	2,973,874	32,327,866	-	536,620,812
Operating expenses	(208,891,767)	(1,325,694,158)	(365,434,237)	(230,478,758)	(123,700,627)	(46,937,929)	(45,321,901)	(150,541,889)	-	(2,497,001,266)
Non-operating income/(losses)	4,006,559	(423,936)	(157,206)	(359,987)	(256,309)	114,931	1,409,086	1,096,046	-	5,429,184
Total profit/(loss) before tax	(404,177,486)	325,839,576	130,114,632	107,695,733	77,570,969	36,807,162	35,484,782	158,384,056	-	467,719,424
Loans and advances, net	20,000,000	24,297,065,072	8,748,514,546	4,765,460,795	3,291,387,925	1,784,374,949	2,852,655,395	5,552,782,286	-	51,312,240,968
Total assets	12,812,874,706	54,770,059,497	12,478,848,534	10,594,698,788	5,764,541,607	3,464,819,332	2,893,556,233	9,809,746,048	(14,535,178,551)	98,053,966,194
Due to customers	(4,465,807)	(33,160,413,096)	(11,258,959,442)	(9,441,072,888)	(5,172,642,284)	(3,236,358,770)	(1,273,523,503)	(4,892,861,672)	-	(68,440,297,462)
Total liabilities	(9,502,369,831)	(52,723,401,538)	(11,624,166,761)	(9,732,484,428)	(5,364,909,220)	(3,264,384,099)	(2,766,703,292)	(9,093,704,575)	14,535,178,551	(89,538,945,293)
Impairment charge for credit losses	1,223,346	356,063,102	134,369,628	52,231,517	18,041,866	9,524,210	10,646,378	33,785,854	-	615,885,901
Depreciation and amortization	1,145,683	31,483,419	5,218,126	303,912	2,820,694	303,912	1,285,348	4,692,778	-	47,253,872
Capital expenditure	1,669,117	33,170,203	20,750,313	1,480,326	132,213	217,000	36,231	300,940	-	57,756,343

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

48 SEGMENT INFORMATION(continued)**Geographical Information**

The Bank's revenue from external customers is mainly from mainland China for 2015 and 2014. As at 31 December 2015 and 2014, all non-current assets of the Bank are located in mainland China.

49 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 23,496 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 2014	Change	31 December 2015
DBS Bank Ltd.	SGD 22,096 Million	SGD 1,400 Million	SGD 23,496 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 2014		Change		31 December 2015	
	Amount	%	Amount	%	Amount	%
DBS Bank Ltd.	RMB 6.3 Billion	100	-	-	RMB 6.3 Billion	100

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

49 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

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

(1) Related Entity

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
DBS Vickers (Hong Kong) Limited	Company controlled by the parent company
DBS Investment and Financial Advisory Company Limited	Company controlled by the parent company

(2) Related Person

The term key management refer to people who have the power and responsibility to directly or indirectly plan, direct or control the business of our group, including but not limited to directors and senior management.

(e) Related party transactions

(1) Pricing policy

The major transactions entered into by the Bank with its related parties are 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

	2015	2014
DBS Bank Ltd.	23,303,993	272,321
DBS Bank (Hong Kong) Limited	-	12,972
	<u>23,303,993</u>	<u>285,293</u>

(ii) Interest expense

	2015	2014
DBS Bank Ltd.	513,960,448	33,898,234
DBS Bank (Hong Kong) Limited	-	623,834
DBS Bank (Tai Wan) Limited	-	163,875
	<u>513,960,448</u>	<u>34,685,943</u>

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

49 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)**(e) Related party transactions (continued)****(2) Significant related party transactions (continued)****(iii) Service charge**

	2015	2014
DBS Bank Ltd.	72,960,586	77,443,270
DBS Bank (Hong Kong) Limited	7,743,996	8,708,124
	<u>80,704,582</u>	<u>86,151,394</u>

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

(3) Balances with related parties**(i) Due from other financial institution**

	31 December 2015	31 December 2014
DBS Bank Ltd.	2,265,279,952	1,227,916,753
DBS Bank (Hong Kong) Limited	141,790,814	143,814,722
	<u>2,407,070,766</u>	<u>1,371,731,475</u>

(ii) Interest receivable

	31 December 2015	31 December 2014
DBS Bank Ltd.	<u>5,443,139</u>	<u>3,875</u>

(iii) Other receivables

	31 December 2015	31 December 2014
DBS Bank Ltd.	13,634,348	36,295,384
DBS Bank (Tai Wan) Limited	159,755	-
DBS Bank (Hong Kong) Limited	454,264	-
	<u>14,248,367</u>	<u>36,295,384</u>

(iv) Deposits / borrowing from

	31 December 2015	31 December 2014
DBS Bank Ltd.	19,729,590,412	8,388,134,789
DBS Bank (Hong Kong) Limited	246,169,398	7,124,302
DBS Vickers (Hong Kong) Limited	-	53,780
DBS Asia Capital Ltd	-	302,664
DBS Bank (Tai Wan) Limited	698,366	744,497
	<u>19,976,458,176</u>	<u>8,396,360,032</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

49 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions(continued)

(3) Balances with related parties(continued)

(v) Due to customers

	31 December 2015	31 December 2014
DBS Investment and Financial Advisory Company Limited	6,918,675	-
	<u>6,918,675</u>	<u>-</u>

(vi) Interest payable

	31 December 2015	31 December 2014
DBS Bank Ltd.	10,407,865	8,470,736
DBS Bank (Hong Kong) Limited	26,089	27,414
DBS Bank (Tai Wan) Limited	90	96
	<u>10,434,044</u>	<u>8,498,246</u>

(vii) Bonds issued

	31 December 2015	31 December 2014
DBS Bank (Hong Kong) Limited	1,110,078,710	147,397,761
	<u>1,110,078,710</u>	<u>147,397,761</u>

(viii) Other payables

	31 December 2015	31 December 2014
DBS Bank Ltd.	621,410,762	168,355,489
DBS Bank (Hong Kong) Limited	3,824,457	3,071,280
	<u>625,235,219</u>	<u>171,426,769</u>

(ix) Derivative transactions

	31 December 2015	
	Notional amount	Fair value
DBS Bank Ltd.	21,803,997,677	(143,225,938)
DBS Bank (Hong Kong) Limited	25,853,356,767	(130,772,790)
	<u>47,657,354,444</u>	<u>(273,998,728)</u>
	31 December 2014	
	Notional amount	Fair value
DBS Bank Ltd.	42,059,222,745	(158,371,932)
DBS Bank (Hong Kong) Limited	19,043,031,909	(72,772,045)
	<u>61,102,254,654</u>	<u>(231,143,977)</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

49 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions(continued)

(3) Balances with related parties(continued)

(x) Standby letter of credit

	31 December 2015	31 December 2014
DBS Bank Ltd.	8,932,379,407	6,434,025,017
DBS Bank (Hong Kong) Limited	219,377,800	1,036,706,231
DBS Bank (Tai Wan) Limited	200,218,000	30,000,000
	<u>9,351,975,207</u>	<u>7,500,731,248</u>

(xi) Letters of gurantee issued

	31 December 2015	31 December 2014
DBS Bank Ltd.	5,225,736	222,878,307
DBS Bank (Hong Kong) Limited	8,023,989	8,444,220
DBS Bank (Tai Wan) Limited	10,598,414	-
	<u>23,848,139</u>	<u>231,322,527</u>

(xii) Letters of credit issued

	31 December 2015	31 December 2014
DBS Bank Ltd.	2,004,200,264	18,349,089,292
DBS Bank (Hong Kong) Limited	-	5,314,749
	<u>2,004,200,264</u>	<u>18,354,404,041</u>

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits of 2015:

	2015
Salary and welfare	36,513,494
Share incentive plan	3,386,386
	<u>39,899,880</u>

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT

50.1 Risk governance

Under the Bank's risk governance frameworks, 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 China Risk Executive Committee (Risk Exco) and its one-down committees, including China Credit Risk Committee (CCRC), China Market & Liquidity Risk Committee (CMLRC), as well as China Operational Risk Committee (CORC).

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.

50.2 Credit risk

Credit risk arises out of the Bank's daily activities in various areas of business – lending to retail, corporate and institutional customers; trading activities such as foreign exchange, derivatives and debt securities; and settlement of transactions. Credit risk is one of the most significant measurable risks faced by the Bank.

Lending exposures are typically represented by the notional value or principal amount of on-balance sheet financial instruments. Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments on behalf of a customer that is unable to meet its obligations to third parties, carry the same credit risk as loans even though they are contingent in nature. Pre-settlement Credit Exposures (PCE) for trading and securities transactions are measured taking into account collateral and netting arrangements. Settlement risk is the risk of loss due to the counterparty's failure to perform its obligation after the Bank has performed its obligation under an exchange of cash or securities.

Credit Risk Management

The Bank's approach to credit risk management includes the followings:

A Policies

The Bank localized Group Core Credit Risk Policy, by taking account of the local laws, regulations. The Core Credit Risk Policy sets forth the principles by which the Group conducts its credit risk management and control activities. This policy, supplemented by a number of operational policies, ensures consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across the Bank.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT(continued)

50.2 Credit risk (continued)

B Credit risk methodologies

Credit risk is managed by thoroughly understanding our customers – the businesses they are in, and the economies in which they operate. This is facilitated through the use of credit ratings and lending limits.

(i) Loans and advances and off balance sheet 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 corporate borrowers. At the same time, the Bank also assigns loan grade to each facility for both corporate and retail borrowers 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) Traded products and securities

Counterparty risk that may arise from traded products and securities is viewed similarly to loan exposures and included under the Bank's overall lending limits to counterparties. Issuer Default Risk that may arise from traded products and securities are generally measured and monitored via limits set by the Bank.

(iii) Loans to other banks and financial institutions

The Bank 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT(continued)

50.2 Credit risk (continued)

B Credit risk methodologies (continued)

(iv) Pre-settlement credit risk

Pre-settlement credit risk on derivatives arising from counterparty's potential default is quantified by its current mark-to-market plus an appropriate add-on factor for potential future exposure.

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

The Bank actively monitors and manages its exposure to counterparties in over-the-counter (OTC) derivative trades to protect its balance sheet in the event of a counterparty default. Counterparty risk exposures which may be materially and adversely affected by market risk events are identified, reviewed and acted upon by management and highlighted to the appropriate risk committees. Specific wrong-way risk arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty due to the nature of transactions with the counterparty. The Group has a policy to guide the handling of specific wrong way risk transactions and its risk measurement metric takes into account the higher risks associated with such transactions.

C Process, System and Reports

The Bank continues to invest in systems to support risk monitoring and reporting for the Bank's institutional banking and consumer banking businesses. The end-to-end credit process is constantly subjected to review and improvement through various front-to-back initiatives involving the business units, RMG, operations unit and other key stakeholders.

Day-to-day monitoring of credit exposures, portfolio performance and the external environment that may have an impact on credit risk profiles is key to the Bank's philosophy of effective credit risk management. Risk reporting on credit trends, which may include industry analysis, early warning alerts and key weak credits, is provided to the various credit committees, and key strategies and action plans are formulated and tracked.

Credit control functions ensure that credit risks taken comply with group-wide credit policies and guidelines. These functions ensure proper activation of approved limits and appropriate endorsement of credit excesses and policy exceptions, and monitor compliance with credit standards and covenants established by management and regulators.

D Collateral

Where possible, the Bank takes collateral as a secondary recourse to the borrower. Collateral includes cash, marketable securities, properties, trade receivables, inventory and equipment and other physical and financial collateral. The Bank has put in place policies to determine the eligibility of collateral for credit risk mitigation, which include requiring specific collaterals to meet minimum operational requirements in order to be considered as effective risk mitigants. Collateral taken for financial market operations is marked-to-market on a mutually-agreed period with the respective counterparties.

Collateral taken for commercial banking is revalued periodically ranging from daily to annually, depending on the type of collateral.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT(continued)

50.2 Credit risk (continued)

E Other Risk Mitigants

The Bank also uses guarantees as credit risk mitigants. While the Bank may accept guarantees from any counterparty, it sets internal thresholds for considering guarantors to be eligible for credit risk mitigation.

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

	31 December 2015	31 December 2014
Deposits with other banks	6,925,513,605	6,808,957,502
Placements with financial institutions	13,240,691,855	9,869,974,765
Financial assets at fair value through profit or loss	7,618,299,803	6,404,708,433
Derivative assets	4,806,314,003	2,466,125,887
Financial assets purchased under resale agreements	494,955,518	2,018,231,539
Interest receivable	593,617,829	676,851,270
Loans and advances	43,885,568,262	51,312,240,968
Investment securities – available-for-sale	2,800,599,654	3,114,560,775
Investment securities – loans and receivables	443,136,830	-
Other financial assets	603,070,012	308,281,496
Sub-total	<u>81,411,767,371</u>	<u>82,979,932,635</u>
Letters of credit issued	5,906,445,522	24,758,826,200
Standby letter of credit	10,006,994,542	9,265,044,609
Letters of guarantee issued	1,030,442,218	1,456,592,403
Irrevocable loan commitment	2,460,165,488	1,914,115,400
Bank acceptances	1,620,584,959	1,845,711,700
Letters of credit confirmation	361,048,171	9,709,888
Sub-total	<u>21,385,680,900</u>	<u>39,250,000,200</u>
Total	<u>102,797,448,271</u>	<u>122,229,932,835</u>

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2015, 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, 54% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2014: 62%).

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

G Placements with financial institutions

	31 December 2015	31 December 2014
Neither past due nor impaired	<u>13,240,691,855</u>	<u>9,869,974,765</u>

H Loans and advances

	31 December 2015	31 December 2014
Neither past due nor impaired	43,606,489,447	51,283,117,028
Past due but not impaired	679,775,609	443,212,194
Impaired	<u>771,393,589</u>	<u>828,176,507</u>
Total	<u>45,057,658,645</u>	<u>52,554,505,729</u>
Less: allowance for impairment losses	<u>(1,172,090,383)</u>	<u>(1,242,264,761)</u>
Net	<u>43,885,568,262</u>	<u>51,312,240,968</u>

The total allowance for impairment of loans and advances amounted to RMB 1,172 million (31 December 2014: RMB 1,242 million), of which RMB 139 million (31 December 2014: RMB 368 million) represents the individually assessed impairment allowance and the remaining amount of RMB 1,033 million (31 December 2014: RMB 873 million) represents the collectively assessed impairment allowance.

(i) 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.

	Corporate loans	Retail loans	Total
31 December 2015			
Pass	37,527,253,314	5,830,178,072	43,357,431,386
Special mention	<u>247,021,731</u>	<u>2,036,330</u>	<u>249,058,061</u>
	<u>37,774,275,045</u>	<u>5,832,214,402</u>	<u>43,606,489,447</u>
31 December 2014			
Pass	45,255,857,754	6,000,808,985	51,256,666,739
Special mention	<u>23,683,708</u>	<u>2,766,581</u>	<u>26,450,289</u>
	<u>45,279,541,462</u>	<u>6,003,575,566</u>	<u>51,283,117,028</u>

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)**50.2 Credit risk (continued)****H Loans and advances (continued)****(ii) 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:

	Past due up to 30 days	Past due 30-60 days	Past due 60-90 days	Past due over 90 days	Total
31 December 2015					
Corporate loans	200,699,433	126,523,210	121,341,844	61,846,974	510,411,461
Retail loans	146,814,884	16,266,284	6,282,980	-	169,364,148
Total	347,514,317	142,789,494	127,624,824	61,846,974	679,775,609
31 December 2014					
Corporate loans	97,278,808	59,098,519	69,915,562	11,790,076	238,082,965
Retail loans	163,537,171	26,984,982	14,607,076	-	205,129,229
Total	260,815,979	86,083,501	84,522,638	11,790,076	443,212,194

(iii) Loans and advances individually impaired

	31 December 2015	31 December 2014
Corporate loans	706,524,762	770,694,125
Retail loans	64,868,827	57,482,382
	771,393,589	828,176,507

(iv) 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 at 31 December 2015, there is no renegotiated loans held by the Bank. As of 31 December 2014, there was no renegotiated loan held by the Bank.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

I Trading assets, available-for-sale (“AFS”) securities and asset-backed securities

The tables below analyse the Bank's investment securities by issuers' credit rating:

RMB Securities	Trading Assets	AFS Securities	Asset-backed Securities
31 December 2015			
Rated as AAA	1,386,941,351	136,609,475	443,136,830
Rated as AA+	160,307,184	-	-
Rated as AA	-	-	-
Rated as AA-	-	-	-
Unrated:			-
PBOC notes	-	100,601,267	-
Bonds issued by policy banks	5,980,540,389	2,311,406,916	-
Treasury bonds	90,510,879	251,981,996	-
	<u>7,618,299,803</u>	<u>2,800,599,654</u>	<u>443,136,830</u>
		Trading assets	AFS securities
31 December 2014			
Rated as AAA		1,481,804,967	182,373,962
Rated as AA+		683,558,634	-
Rated as AA		49,958,743	50,135,320
Rated as AA-		259,336,988	-
Unrated:			
PBOC notes		-	99,916,986
Bonds issued by policy banks		3,889,819,953	2,131,647,687
Treasury bonds		40,229,148	650,486,820
		<u>6,404,708,433</u>	<u>3,114,560,775</u>

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.3 Market risk

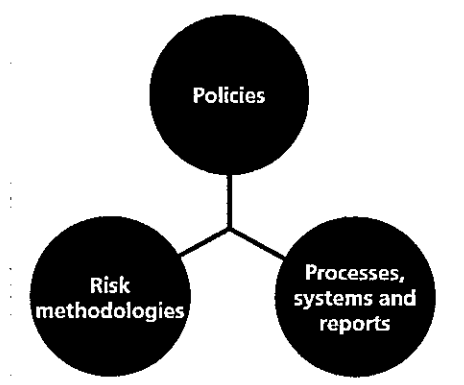
Market Risk is the risk of loss arising from adverse changes in interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, as well as their correlations and implied volatilities. The Bank's exposure to market risk is categorized into:

- Trading portfolios: Arising from positions taken for (i) market-making, (ii) client-facilitation and (iii) benefiting from market opportunities.
- Banking portfolios: Arising from (i) positions taken to manage the interest rate risk of the Bank's retail and commercial banking assets and liabilities; (ii) structural foreign exchange risk arising mainly from the Bank's USD capital and accrual interest which is denominated in currencies other than RMB.

A Market Risk Management

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

The Bank's approach to market risk management is formulated on the following building blocks:



Policies

The Market Risk Framework sets out overall approach while the Core Market Risk Policy (CMRP) establishes the base standards for market risk management within the Bank. The Policy Implementation Guidance and Requirements (PIGR) complements the CMRP and sets out guidance and requirements with more details for specific subject matters. Both CMRP and PIGR facilitate the identification, measurement, control, monitoring and reporting of market risk in a consistent manner. The Market Risk Stress Test Framework sets out the overall approach, standards and controls governing market risk stress testing within the Bank. The criteria for determining the positions to be included in the trading book are stipulated in the Trading Book Policy Statement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.3 Market risk (continued)

A Market Risk Management (continued)

Risk Methodologies

Value-at-Risk (VaR) is a method that computes the potential losses on risk positions as a result of movements in market rates and prices, over a specified time horizon and to a given level of confidence. The Bank's VaR model is based on historical simulation with a one-day holding period. The Bank uses Expected Shortfall (ES), previously known as Tail VaR, to monitor and limit market risk exposure. With effect from 2 November 2015, ES is the average of potential losses beyond the given 97.5% level of confidence. Previously the Bank used the 95% level of confidence. In the third quarter of 2015, the Bank enhanced the credit spread risk modeling by deriving an implied spread from the bond prices and removing the use of proxies. ES is supplemented by risk control metrics such as sensitivities to risk factors and loss triggers for management action.

The Bank conducts backtesting to verify the predictiveness of the VaR model. Backtesting compares VaR calculated for positions at the close of each business day with the Profit and Loss (P&L) which actually arise on those positions on the following business day. The backtesting P&L exclude fees and commissions, and revenues from intra-day trading. For backtesting, VaR at the 99% level of confidence and over a one-day holding period is used.

VaR models such as historical simulation VaR permit the estimation of the aggregate portfolio market risk potential loss due to a range of market risk factors and instruments. VaR models have limitations; for example, past changes in market risk factors may not provide accurate predictions of the future market movements, and the risk arising from severe market risk related events may be understated.

To monitor the Bank's vulnerability to unexpected but plausible extreme market risk related events, the Bank has implemented a stress testing policy for market risk. Regular and multiple stress tests are run covering trading and banking portfolios through a combination of historical and hypothetical scenarios depicting risk factors movement.

ES is the key risk metric used to manage the Bank's assets and liabilities. The Bank manages banking book interest rate risk arising from 1) issuance of Tier 2 Capital bond; and 2) mismatches in the interest rate profile of assets and liabilities, including basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. The Bank measures interest rate risk in the banking book on a weekly basis.

Processes, Systems and Reports

Robust internal control processes and systems are designed and implemented to support the Bank's approach for market risk management. Additionally, regular reviews of these control processes are conducted. These reviews provide senior management with objective and timely assessments of the control processes and systems' appropriateness and effectiveness.

The day-to-day market risk monitoring, control and analysis is managed by the RMG Market and Liquidity Risk unit – an independent market risk management function that reports to the CRO.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.3 Market risk (continued)

B Market Risk in 2015

Trading Portfolio

The period-end, average, high and low ES based on the 97.5% level of confidence is tabulated below.

The following table is computed in Singapore dollars and translated into Renminbi using PBOC's respective year-end rates for presentation purpose.

RMB in million	31 December 2015	1 January 2015 to 31 December 2015		
		As at Average	Highest	Lowest
Total		11.77	19.08	32.91
				8.16

RMB in million	31 December 2015	1 January 2014 to 31 December 2014		
		As at Average	Highest	Lowest
Total		13.97	8.29	14.28
				3.18

The key market risk factors driving Treasury's trading portfolios in 2015 were RMB interest rate, USD/RMB foreign exchange and credit spread.

The estimated MtM PL for RMB interest rate position as at 31 December 2015, assuming a 50 basis point increase in general interest rates was a decrease of RMB 31.39 million.

The estimated MtM PL for foreign exchange position as of 31 December 2015, assuming USD appreciation by 3% against RMB was an increase of RMB 219.56 million.

Banking Portfolio

The period-end, average, high and low ES¹ based on the 97.5% level of confidence is tabulated below.

The following tables are computed in Singapore dollars and translated into Renminbi using PBOC's respective year-end rates for presentation purpose.

¹ The 97.5% ES of Banking Portfolio has been produced since 16 May 2014.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.3 Market risk (continued)

B Market Risk in 2015 (continued)

Table 1 Treasury Banking

RMB in million	31 December 2015	As at 31 December 2015	1 January 2015 to 31 December 2015		
			Average	Highest	Lowest
Total		6.52	9.98	13.69	5.98

RMB in million	31 December 2014	As at 31 December 2014	16 May 2014 to 31 December 2014		
			Average	Highest	Lowest
Total		8.86	2.46	8.86	1.20

Table 2 Central Operations

RMB in million	31 December 2015	As at 31 December 2015	1 January 2015 to 31 December 2015		
			Average	Highest	Lowest
Total		14.39	34.64	45.52	11.65

RMB in million	31 December 2014	As at 31 December 2014	16 May 2014 to 31 December 2014		
			Average	Highest	Lowest
Total		36.49	40.55	57.07	20.70

The key market risk drivers of banking portfolios are USD/RMB FX position and RMB interest rate positions. The economic value impact of changes in foreign exchange and interest rates are simulated for the banking portfolio.

The estimated value volatility for RMB interest rate position as at 31 December 2015, assuming a 50 basis point increase in general interest rates was an increase of RMB 28.64 million.

The estimated value volatility for foreign exchange position as of 31 December 2015, assuming USD appreciation by 3% against RMB was an increase of RMB 44.18 million.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.4 Liquidity risk

The Bank's liquidity risk arises from its obligations to honour withdrawals of deposits, repayments of borrowed funds at maturity, and commitments to its customers to extend loans.

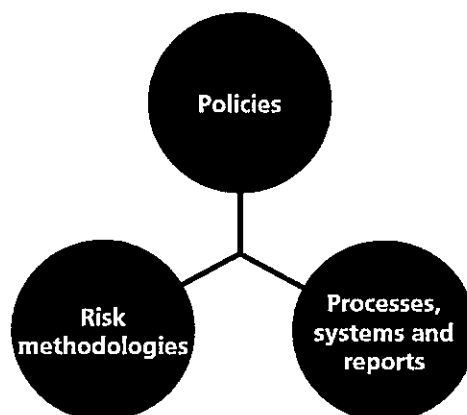
The Bank seeks to manage its liquidity in a manner that ensures that its liquidity obligations would continue to be honoured under normal as well as adverse circumstances.

A Liquidity Risk Management

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

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

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



Policies

The Liquidity Risk Management Policy sets out the Bank's overall approach towards liquidity risk management and describes the range of strategies employed by the Bank to manage its liquidity. These include maintaining an adequate counterbalancing capacity to address potential cashflow shortfalls and having diversified sources of liquidity. Counterbalancing capacity includes liquid assets and the capacity to borrow from the money markets as well as forms of managerial interventions that improve liquidity. In the event of a potential or actual crisis, the Bank has in place a set of liquidity contingency and recovery plans to ensure that the Bank maintains adequate liquidity.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.4 Liquidity risk(continued)

A Liquidity Risk Management (continued)

Risk Methodologies

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

Stress testing is performed under the cashflow maturity mismatch analysis, and covers adverse scenarios involving shocks that are general market and/or name-specific in nature. Stress tests assess the Bank's vulnerability when liability run-offs increase, asset rollovers increase and/or liquid asset buffers reduce.

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

Processes, Systems and Reports

Robust internal control processes and systems underlie the Bank's overall approach to identifying, measuring, aggregating, controlling and monitoring liquidity risk in the Bank. In 2015, the Bank has been building up in-house data platform to improve the timeliness of cash flow information as well as to perform more in depth analysis of the liquidity position.

The day-to-day liquidity risk monitoring, control reporting and analysis are managed by the RMG Market and Liquidity Risk unit – an independent liquidity risk management function that reports to the CRO.

B Liquidity Risk in 2015

The Bank actively monitors and manages the liquidity profile based on the cashflow maturity mismatch analysis with behavioural or contractual profiling.

In 2015, the Bank's liquidity was observed to remain adequate in either normal scenario or stress scenarios under the maturity mismatch analysis for combined currency book.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.4 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.

31 December 2015	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial Liabilities						
Deposits from other banks and financial institutions	2,336,074,494	8,640,577,117	3,564,513,151	1,813,335,962	-	16,354,500,724
Borrowing from other banks	6,417,088,338	1,422,389,879	2,948,692,587	927,797,756	-	11,715,968,560
Due to customers	23,554,310,364	7,902,015,431	11,373,835,293	2,680,439,272	-	45,510,600,360
Financial assets sold under repurchase agreements	3,520,487,285	-	-	-	-	3,520,487,285
Bonds issued	1,569,750,000	-	86,000,000	2,344,000,000	-	3,999,750,000
Others	1,079,495,790	-	-	-	-	1,079,495,790
Total financial liabilities	38,477,206,271	17,964,982,427	17,973,041,031	7,765,572,990	-	82,180,802,719
Financial Assets						
Cash and deposits with the central bank	13,362,609,997	-	-	-	-	13,362,609,997
Deposits with other banks	2,975,513,605	3,075,304,306	914,716,250	-	-	6,965,534,161
Placements with financial institutions	1,937,317,434	2,529,719,342	7,644,975,661	1,521,793,193	-	13,633,805,630
Financial assets at fair value through profit or loss	239,203,100	756,288,897	3,226,454,227	3,291,021,933	-	7,512,968,157
Financial assets purchased under resale agreements	-	498,801,058	-	-	-	498,801,058
Investment securities – loans and receivables	1,288,800	680,578	59,192,954	390,744,343	-	451,906,675
Loans and advances	4,738,285,587	10,564,496,994	15,487,985,360	12,725,358,976	7,440,440,468	50,956,567,385
Investment securities – available-for-sale	197,273,000	185,930,000	1,175,205,707	1,135,430,960	285,953,000	2,979,792,667
Others	323,204,565	-	-	44,673,727	-	367,878,292
Total financial assets	23,774,696,088	17,611,221,175	28,508,530,159	19,109,023,132	7,726,393,468	96,729,864,022
Net cash flows	(14,702,510,183)	(353,761,252)	10,535,489,128	11,343,450,142	7,726,393,468	14,549,061,303

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.4 Liquidity risk (continued)

A Non-derivative cash flows of financial assets and liabilities

31 December 2014

Financial Liabilities

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from other banks and financial institutions	2,080,370,965	2,090,162	11,274,036	1,502,919,596	-	3,596,654,759
Borrowing from other banks	5,928,577,174	1,337,037,377	739,895,781	1,252,684,966	-	9,258,195,298
Due to customers	22,436,381,640	13,197,243,404	29,529,080,854	4,214,632,333	-	69,377,338,231
Financial assets sold under repurchase agreements	2,250,464,329	-	-	-	-	2,250,464,329
Bonds issued	-	-	512,037,671	1,570,896,575	-	2,082,934,246
Others	334,310,089	-	-	-	-	334,310,089
Total financial liabilities	33,030,104,197	14,536,370,943	30,792,288,342	8,541,133,470	-	86,899,896,952

Financial Assets

Cash and deposits with the central bank	14,641,751,532	-	-	-	-	14,641,751,532
Deposits with other banks	1,783,478,891	4,693,116,000	409,403,333	-	-	6,885,998,224
Placements with financial institutions	2,232,763,111	1,489,559,324	4,366,445,571	2,560,086,628	-	10,648,854,634
Financial assets at fair value through profit or loss	660,879,393	738,441,892	4,218,336,334	1,056,817,393	42,960,000	6,717,435,012
Financial assets purchased under resale agreements	-	1,058,258,452	1,011,572,979	-	-	2,069,831,431
Loans and advances	6,842,604,078	11,431,810,896	19,530,671,933	14,148,770,318	7,571,930,549	59,525,787,774
Investment securities – available-for-sale others	225,145,940	335,374,000	869,887,540	1,929,114,595	41,564,000	3,401,086,075
	142,096,287	-	-	84,893,383	-	226,989,670
Total financial assets	26,528,719,232	19,746,560,564	30,406,317,690	19,779,682,317	7,656,454,549	104,117,734,352
Net cash flows	(6,501,384,965)	5,210,189,621	(385,970,652)	11,238,548,847	7,656,454,549	17,217,837,400

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.4 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.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2015						
Interest rate derivatives	48,294,004	75,533,952	109,850,262	127,146,448	9,083,084	369,907,750
31 December 2014						
Interest rate derivatives	(2,607,565)	11,107,654	(7,112,523)	29,180,933	10,443,693	41,012,192

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.4 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: foreign exchange forward, foreign exchange swap, cross-currency swap.

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.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2015						
Foreign exchange derivatives						
– Outflow	85,559,370,903	80,553,210,853	198,370,892,453	23,573,490,943	-	388,056,965,152
– Inflow	85,545,591,224	80,554,467,437	198,253,143,023	23,634,377,618	-	387,987,579,302
As at 31 December 2014						
Foreign exchange derivatives						
– Outflow	109,518,162,606	126,756,546,742	161,713,403,748	19,913,084,257	-	417,901,197,353
– Inflow	109,499,183,621	126,720,160,346	161,782,572,882	19,919,457,107	-	417,921,373,956

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.4 Liquidity risk (continued)

C Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
31 December 2015				
Letters of credit issued	5,764,194,110	142,251,412	-	5,906,445,522
Letters of guarantee issued	712,304,814	92,393,882	225,743,522	1,030,442,218
Irrevocable loan commitment	13,275,126	2,317,036,459	129,853,903	2,460,165,488
Bank acceptances	1,620,584,959	-	-	1,620,584,959
Standby letter of credit	8,611,945,942	1,395,048,600	-	10,006,994,542
Letters of credit confirmation	361,048,171	-	-	361,048,171
Operating lease commitments	153,431,509	186,831,002	542,709	340,805,220
Total	17,236,784,631	4,133,561,355	356,140,134	21,726,486,120
31 December 2014				
Letters of credit issued	24,758,826,200	-	-	24,758,826,200
Letters of guarantee issued	962,730,347	302,509,081	191,352,975	1,456,592,403
Irrevocable loan commitment	83,634,259	1,605,094,926	225,386,215	1,914,115,400
Bank acceptances	1,845,711,700	-	-	1,845,711,700
Standby letter of credit	8,250,891,599	1,014,153,010	-	9,265,044,609
Letters of credit confirmation	9,709,888	-	-	9,709,888
Operating lease commitments	179,341,483	295,211,415	355,285	474,908,183
Total	36,090,845,476	3,216,968,432	417,094,475	39,724,908,383

50.5 Fair value hierarchy

IFRS No.7 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.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

50 FINANCIAL RISK MANAGEMENT (continued)

50.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value

31 December 2015

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading securities	-	7,618,299,803	-	7,618,299,803
- Derivatives assets	-	4,806,314,003	-	4,806,314,003
- Financial assets purchased under resale agreements	-	494,955,518	-	494,955,518
Available-for-sale investments	-	2,800,599,654	-	2,800,599,654
Total Assets	-	15,720,168,978	-	15,720,168,978
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(4,740,121,284)	-	(4,740,121,284)
- Financial assets sold under repurchase agreements	-	(3,518,960,169)	-	(3,518,960,169)
Financial liabilities designated as fair value through profit or loss – SIPs	-	(84,189,550)	-	(84,189,550)
Total Liabilities	-	(8,343,271,003)	-	(8,343,271,003)

31 December 2014

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading securities	-	6,404,708,433	-	6,404,708,433
- Derivatives assets	-	2,466,125,887	-	2,466,125,887
- Financial assets purchased under resale agreements	-	2,018,231,539	-	2,018,231,539
Available-for-sale investments	-	3,114,560,775	-	3,114,560,775
Total Assets	-	14,003,626,634	-	14,003,626,634
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(2,464,821,531)	-	(2,464,821,531)
- Financial assets sold under repurchase agreements	-	(2,249,084,549)	-	(2,249,084,549)
Financial liabilities designated as fair value through profit or loss – SIPs	-	(85,315,459)	-	(85,315,459)
Total Liabilities	-	(4,799,221,539)	-	(4,799,221,539)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.5 Fair value hierarchy(continued)

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

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

Cash and 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, belonging to level 2.

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.

Customer deposits

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

50 FINANCIAL RISK MANAGEMENT (continued)

50.6 Capital management

The Bank's capital management focuses on monitoring of the Capital Adequacy Ratio (CAR). DBS (China) actively manages the capital to achieve the following:

- a. To ensure compliance with regulatory capital adequacy ratio ("CAR") and leverage ratio requirements;
- b. Have sufficient capital to support the internally assessed capital demand and to support its business strategy under the relevant level;
- c. To maintain a credit rating risk profile consistent with the Risk Appetite Statement;
- d. To optimize the return to shareholders while maintaining a prudent level of capital in relation to its business;
- e. Meet expectations of various stakeholders including, but not limited to, customers, investors, and rating agencies;
- f. Ensure ready access to funding;
- g. Meet its obligations to creditors and other counterparties;
- h. Continue to serve as a credit intermediary; and
- i. To the extent possible maintain stability of capital supply to the extent that it is a determinant of limits affecting the implementation of the Bank's strategy such as single borrower limits.

The Bank calculates and discloses Capital Adequacy Ratio in accordance with "The Trial Measures on Management of Capital for Commercial Banks" and other regulatory requirements issued by the CBRC since 1 Jan 2013.

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

	31 December 2015	31 December 2014
Core Tier 1 capital adequacy ratio	11.30%	11.07%
Tier 1 capital adequacy ratio	11.30%	11.07%
Total capital adequacy ratio	14.41%	11.61%
Core Tier 1 capital	8,667,522,139	8,515,020,901
Regulatory Deductions for Core Tier 1 capital	-	-
Net core Tier 1 capital	8,667,522,139	8,515,020,901
Other Tier 1 capital	-	-
Net Tier 1 capital	8,667,522,139	8,515,020,901
Tier 2 capital	2,385,696,800	414,088,361
Total regulatory capital	11,053,218,939	8,929,109,262
Total risk-weighted assets	76,731,167,600	76,898,526,725