

DBS BANK (CHINA) LIMITED

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2016**

[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 2016**

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(English Translation For Reference Only)

AUDITOR'S REPORT

PwC ZT Shen Zi (2017) No. 21224

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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 2016, 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.

普华永道中天会计师事务所(特殊普通合伙)

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普华永道

(English Translation For Reference Only)

AUDITOR'S REPORT
(continued)

PwC ZT Shen Zi (2017) No. 21224
(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 2016, 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

07 February 2017

DBS BANK (CHINA) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2016

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

| ASSETS | Notes | 31 December 2016 | 31 December 2015 |
|---|--------------|-------------------------|-------------------------|
| Cash and deposits with the central bank | 8 | 14,558,254,902 | 13,362,609,997 |
| Deposits with other banks | 9 | 7,334,247,820 | 6,925,513,605 |
| Placements with financial institutions | 10 | 17,041,933,789 | 13,240,691,855 |
| Financial assets at fair value through profit or loss | 11 | 6,366,848,443 | 7,618,299,803 |
| Derivative assets | 12 | 9,094,258,342 | 4,806,314,003 |
| Financial assets purchased under resale agreements | 13 | - | 494,955,518 |
| Interest receivable | 14 | 422,618,197 | 593,617,829 |
| Loans and advances | 15 | 37,704,672,912 | 43,885,568,262 |
| Investment securities - available-for-sale | 16 | 2,150,816,247 | 2,800,599,654 |
| Investment securities - loans and receivables | 17 | 121,542,528 | 443,136,830 |
| Fixed assets | 18 | 104,718,258 | 110,128,641 |
| Long-term prepaid expenses | 19 | 14,623,102 | 20,279,529 |
| Deferred income tax assets | 20 | 362,639,053 | 406,120,475 |
| Other assets | 21 | 1,408,553,793 | 620,919,855 |
| TOTAL ASSETS | | 96,685,727,386 | 95,328,755,856 |
| | | | |
| LIABILITIES | Notes | 31 December 2016 | 31 December 2015 |
| Deposits from other banks and financial institutions | 22 | 8,693,428,486 | 15,829,395,448 |
| Borrowing from other banks | 23 | 11,627,643,459 | 11,662,502,133 |
| Derivative liabilities | 12 | 8,199,798,794 | 4,740,121,285 |
| Financial assets sold under repurchase agreements | 24 | 1,970,930,248 | 3,518,960,169 |
| Due to customers | 25 | 48,785,788,935 | 44,987,410,107 |
| Payroll and welfare payable | 26 | 131,272,813 | 142,189,048 |
| Taxes payable | 27 | 60,154,728 | 131,349,198 |
| Interest payable | 28 | 381,214,776 | 873,371,009 |
| Bonds issued | 29 | 2,550,010,916 | 3,495,605,196 |
| Other liabilities | 30 | 3,832,839,446 | 1,280,330,098 |
| TOTAL LIABILITIES | | 86,233,082,601 | 86,661,233,691 |
| | | | |
| OWNER'S EQUITY | | | |
| Paid-in capital | 31 | 8,000,000,000 | 6,300,000,000 |
| Capital surplus | 32 | 22,571,343 | 22,571,343 |
| Other comprehensive income | 44 | 3,732,990 | 31,815,959 |
| Surplus reserve | 33 | 242,634,046 | 231,313,487 |
| General risk reserve | 34 | 990,800,000 | 945,200,000 |
| Undistributed profits | 35 | 1,192,906,406 | 1,136,621,376 |
| TOTAL OWNER'S EQUITY | | 10,452,644,785 | 8,667,522,165 |
| | | | |
| TOTAL LIABILITIES AND OWNER'S EQUITY | | 96,685,727,386 | 95,328,755,856 |

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 2016

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

| | Notes | 2016 | 2015 |
|--|-------|------------------------|------------------------|
| Interest income | 36 | 2,840,261,759 | 3,980,017,268 |
| Interest expense | 36 | (1,516,735,979) | (2,399,506,288) |
| Net interest income | | 1,323,525,780 | 1,580,510,980 |
| Fee and commission income | 37 | 357,794,345 | 418,785,431 |
| Fee and commission expenses | 37 | (69,311,761) | (71,967,357) |
| Net fee and commission income | | 288,482,584 | 346,818,074 |
| Investment gains | 38 | 118,667,226 | 149,994,376 |
| Fair value gains/(losses) | 39 | 817,188,884 | 150,032,583 |
| Net (losses)/gains from foreign exchange and derivative transactions | 40 | (339,911,474) | 462,339,203 |
| Other business income | | 7,823,717 | 4,196,838 |
| Operating income | | 2,215,776,717 | 2,693,892,054 |
| Tax and levies | | (95,635,930) | (223,187,968) |
| General and administrative expenses | 41 | (1,691,811,195) | (1,717,150,149) |
| Asset impairment losses | 42 | (276,619,548) | (612,998,854) |
| Operating expense | | (2,064,066,673) | (2,553,336,971) |
| Operating profit | | 151,710,044 | 140,555,083 |
| Non-operating income | | 12,773,857 | 25,960,722 |
| Non-operating expenses | | (3,079,223) | (1,177,258) |
| Total profit | | 161,404,678 | 165,338,547 |
| Less: Income tax | 43 | (48,199,089) | (45,264,758) |
| Net profit | | 113,205,589 | 120,073,789 |
| Net Other comprehensive income | 44 | (28,082,969) | 32,427,475 |
| 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 | | (33,099,074) | 32,427,475 |
| -Cash Flow Hedge Reserve | | 5,016,105 | - |
| Total comprehensive income | | 85,122,620 | 152,501,264 |

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 2016

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

| | Notes | 2016 | 2015 |
|--|-------|-------------------------|-------------------------|
| 1 Cash flows from operating activities | | | |
| Net decrease in deposits with the central bank and other banks | | - | 4,632,133,862 |
| Net decrease in loans and advances | | 6,143,101,176 | 6,899,702,360 |
| Net increase in borrowing from other banks | | - | 2,759,724,019 |
| Net decrease in financial assets at fair value through profit or loss | | 1,335,508,051 | - |
| Net increase in financial assets sold under repurchase agreements | | - | 1,269,875,620 |
| Net decrease in financial assets purchased under resale agreements | | 495,000,000 | 1,523,276,021 |
| Interest received | | 2,927,649,325 | 3,937,329,626 |
| Fee and commission received | | 357,794,345 | 418,785,431 |
| Cash received relating to other operating activities | | 2,476,711,330 | 1,143,047,071 |
| Sub-total of cash inflow | | 13,735,764,227 | 22,583,874,010 |
| Net increase in deposits with the central bank and other banks | | (4,278,903,703) | - |
| Net decrease in customer deposits and deposits from other banks and financial institutions | | (3,337,588,134) | (11,169,023,409) |
| Net decrease in borrowing from other banks | | (34,858,674) | - |
| Net increase in placements with financial institutions | | (3,014,205,121) | (2,238,431,903) |
| Net increase in financial assets at fair value through profit or loss | | - | (1,020,236,982) |
| Net decrease in financial assets sold under repurchase agreements | | (1,548,000,000) | - |
| Interest paid | | (1,847,140,230) | (2,483,281,650) |
| Fee and commission paid | | (69,311,761) | (71,967,357) |
| Cash paid to employees | | (1,040,849,653) | (1,035,164,920) |
| Payment of taxes | | (162,187,077) | (454,210,619) |
| Cash paid relating to other operating activities | | (2,181,264,455) | (1,009,510,775) |
| Sub-total of cash outflow | | (17,514,308,808) | (19,481,827,615) |
| Net cash (used in) / provided from operating activities | 45 | (3,778,544,581) | 3,102,046,395 |

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts expressed in Rmb unless otherwise stated)

[English translation for reference only]

| | Notes | 2016 | 2015 |
|---|-------|------------------------|------------------------|
| 2 Cash flows from investing activities | | | |
| Cash received from disposal of investment securities - available-for-sale | | 2,979,433,915 | 5,623,782,751 |
| Interest received from investment securities | | 105,928,648 | 125,921,083 |
| Net decrease in investment securities - loans and receivables | | 323,622,500 | - |
| Cash received from disposal of fixed assets | | 927,799 | 2,332,844 |
| Sub-total of cash inflow | | 3,409,912,862 | 5,752,036,678 |
| Cash paid for purchase of investment securities-loans and receivables | | - | (446,422,500) |
| Cash paid for purchase of investment securities-available-for-sale | | (2,373,782,607) | (5,260,000,000) |
| Cash paid for purchase of fixed assets and other long-term assets | | (38,193,996) | (78,054,199) |
| Sub-total of cash outflow | | (2,411,976,603) | (5,784,476,699) |
| Net cash provided from / (used in) investing activities | | 997,936,259 | (32,440,021) |
| 3 Cash flows from financing activities | | | |
| Capital injection | | 1,700,000,000 | - |
| Cash received from bonds issuance | | 599,714,733 | 1,994,035,974 |
| Sub-total of cash inflow | | 2,299,714,733 | 1,994,035,974 |
| Cash payments for bonds redemption | | (1,500,000,000) | (500,000,000) |
| Cash payments for bonds interest expenses | | (161,751,982) | (95,737,922) |
| Sub-total of cash outflow | | (1,661,751,982) | (595,737,922) |
| Net cash flows provided from financing activities | | 637,962,751 | 1,398,298,052 |
| 4 Effect of foreign exchange rate changes on cash and cash equivalents | | 255,157,801 | 133,929,191 |
| 5 Net (decrease) / increase in cash and cash equivalents | | (1,887,487,770) | 4,601,833,617 |
| Add: Cash and cash equivalents at beginning of year | | 17,611,422,317 | 13,009,588,700 |
| 6 Cash and cash equivalents at end of year | 45 | 15,723,934,547 | 17,611,422,317 |

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 2016
(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 1 January 2015 | 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 |
| Comprehensive income | | | | | | | |
| Net profit for the year of 2016 | - | - | - | - | - | 113,205,589 | 113,205,589 |
| Other comprehensive income | - | - | (28,082,969) | - | - | - | (28,082,969) |
| Total comprehensive income | - | - | (28,082,969) | - | - | 113,205,589 | 85,122,620 |
| Capital Contribution by owners | | | | | | | |
| Capital Contribution by owners | 1,700,000,000 | - | - | - | - | - | 1,700,000,000 |
| Profit distribution | | | | | | | |
| Transfer to general risk reserve | - | - | - | - | 45,600,000 | (45,600,000) | - |
| Transfer to surplus reserve | - | - | - | 11,320,559 | - | (11,320,559) | - |
| Balance at 31 December 2016 | 8,000,000,000 | 22,571,343 | 3,732,990 | 242,634,046 | 990,800,000 | 1,192,906,406 | 10,452,644,785 |

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 2016

(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. Pursuant to the approval from CBRC on 9 September 2016 (Hu Yin Jian Fu(2016)No.382), the Bank increased its registered paid-up capital to RMB 8.0 billion. The Bank obtained a new business license No.00000002201609290009 from the Shanghai's State Administration of Industry and Commerce on 29 September 2016.

The Bank's operating period is non-restricted according to its business license. It is principally engaged in the provision of foreign currency and Renminbi banking businesses as approved by the related regulators.

DBS Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-branch obtained its finance approval license from 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2016 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 2016 and of the financial performance, cash flows and other information for the year then ended.

4 PRINCIPAL ACCOUNTING POLICIES

A Accounting period

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

B Functional currency

The Bank'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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

4 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities

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

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

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

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.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(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)

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(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 2016**

(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.

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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.

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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.

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4 PRINCIPAL ACCOUNTING POLICIES(continued)

H Derivative financial instruments (continued)

Hedge accounting (continued)

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in owner's equity. The ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

DBS BANK (CHINA) LIMITED

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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
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(All amounts expressed in RMB unless otherwise stated)

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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.

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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 lessee 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 lessor 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.

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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.

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4 PRINCIPAL ACCOUNTING POLICIES(continued)

R Employee benefits(continued)

(3) Share Based Payment

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.

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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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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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 7 February 2017.

7 TAXATION

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

| Tax | Tax rate | Tax base |
|--|----------|---|
| Corporate income tax | 25% | Taxable income |
| Value added tax ("VAT") | 6% | Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period) |
| Business tax | 5% | Taxable revenue |
| Urban construction and maintenance tax | 7% | The payment amount of VAT and business tax |
| Education surcharges | 3% | The payment amount of VAT and business tax |
| Local education surcharges | 2% | The payment amount of VAT and business tax |
| River way administrative toll | 1% | The payment amount of VAT and business tax |

Under the Corporate Income Tax Law of the People's Republic of China, the corporate income tax rate applicable to the Bank was 25% (2015: 25%).

Pursuant to the 'Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax'(Cai Shui [2016] 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from financial service is subject to VAT from 1 May 2016, and the applicable tax rate is 6%, while the business tax was 5% before then.

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8 CASH AND DEPOSITS WITH THE CENTRAL BANK

| | 31 December 2016 | 31 December 2015 |
|---|-----------------------|-----------------------|
| Cash | 53,689,121 | 54,513,275 |
| Statutory deposit reserve with the central bank (a) | 5,772,082,659 | 5,664,052,856 |
| Excess deposit reserve with the central bank | 5,389,065,606 | 7,181,500,250 |
| Foreign exchange risk reserve with central bank (b) | 3,343,417,516 | 462,543,616 |
| | <u>14,558,254,902</u> | <u>13,362,609,997</u> |

- (a) 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 2016(31 December 2015: 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 2016(31 December 2015: 15%). RMB deposit reserve bears interest at annual rate of 1.62% (2015: 1.62%).

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

- (b) Pursuant to the 'Circular on the strengthening the macro prudential management about forward FX sales and purchase '(Yin Fa [2015] 273), the Bank places the foreign currency reserve with the People's Bank of China ("PBOC").

9 DEPOSITS WITH OTHER BANKS

| | 31 December 2016 | 31 December 2015 |
|---|----------------------|----------------------|
| Deposits with domestic banks | 6,345,831,532 | 4,556,362,574 |
| Deposits with overseas banks | 777,095,836 | 2,162,080,265 |
| Deposits with overseas related parties (Note 50(e)(3)(i)) | 211,320,452 | 207,070,766 |
| | <u>7,334,247,820</u> | <u>6,925,513,605</u> |

10 PLACEMENTS WITH FINANCIAL INSTITUTIONS

| | 31 December 2016 | 31 December 2015 |
|---|-----------------------|-----------------------|
| Placements with domestic banks | 243,128,456 | 408,301,855 |
| Placements with domestic financial institutions | 12,887,825,333 | 10,632,390,000 |
| Placements with overseas related parties (Note 50(e)(3)(i)) | 3,910,980,000 | 2,200,000,000 |
| | <u>17,041,933,789</u> | <u>13,240,691,855</u> |

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
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11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2016 | 31 December 2015 |
|------------------------------------|----------------------|----------------------|
| Bonds issued by policy banks | 1,937,559,200 | 5,980,540,389 |
| Corporate bonds | 1,277,746,957 | 160,307,184 |
| Treasury bonds | 185,009,111 | 90,510,879 |
| Local Treasury bonds | 29,834,725 | - |
| Negotiable certificates of deposit | 2,936,698,450 | 1,386,941,351 |
| | <u>6,366,848,443</u> | <u>7,618,299,803</u> |

As at 31 Dec 2016, the notional amount of trading assets pledged is RMB 1,510,000,000. The notional amount of trading assets pledged is RMB 2,560,000,000 as at 31 Dec 2015.

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.

Equity options provide the buyer, on payment of a premium, the right but not the obligation, either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

Equity swaps involve the exchange of a set of payments whereby one of these payments is based on an equity-linked return while the other is typically based on an interest reference rate.

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12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)
12.1 DERIVATIVE INSTRUMENTS(continued)

Commodity contracts are agreements between two parties to exchange cash flows which are dependent on the price of the underlying physical assets.

Total Return Swap is a bilateral financial transaction where the counterparties swap the total return of a single asset or basket of assets in exchange for periodic cash flows.

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

The fair value of financial instruments that is not quoted in active markets is determined by using valuation techniques. To the extent practical, cash flow models use only observable data, like interest rate and foreign currency 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 2016 | Notional amount | Fair value | |
|-------------------------------------|--------------------------|----------------------|------------------------|
| | | Assets | Liabilities |
| Foreign exchange derivatives | | | |
| Foreign exchange forward | 34,757,222,109 | 158,771,772 | (332,959,296) |
| Foreign exchange swap | 439,882,640,851 | 6,535,664,089 | (5,391,438,000) |
| Foreign exchange option | 47,111,155,964 | 399,035,195 | (357,753,228) |
| Cross-currency swap | 1,778,528,502 | - | (92,052,418) |
| | <u>523,529,547,426</u> | <u>7,093,471,056</u> | <u>(6,174,202,942)</u> |
| Interest rate derivatives | | | |
| Interest rate swap | 697,030,053,544 | 1,884,656,540 | (1,909,562,790) |
| Interest rate cap and floor | 13,756,694,978 | 3,580,229 | (3,533,192) |
| | <u>710,786,748,522</u> | <u>1,888,236,769</u> | <u>(1,913,095,982)</u> |
| Equity derivatives | <u>2,120,996,143</u> | <u>27,522,034</u> | <u>(27,471,387)</u> |
| Commodity derivatives | <u>226,624,159</u> | <u>84,777,714</u> | <u>(84,777,714)</u> |
| Credit derivatives | <u>55,496,000</u> | <u>250,769</u> | <u>(250,769)</u> |
| Total | <u>1,236,719,412,250</u> | <u>9,094,258,342</u> | <u>(8,199,798,794)</u> |

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12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.1 DERIVATIVE INSTRUMENTS(continued)

| 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 | <u>1,038,652,195,122</u> | <u>4,806,314,003</u> | <u>(4,740,121,285)</u> |

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12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.2 HEDGE ACCOUNTING

(a) Fair value hedge

As at 31 December 2016, 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 | 1,000,000,000 | - | (43,176,713) |

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 | - |

The Bank uses interest rate swaps to hedge against changes in the fair value of bonds issued and the fair value listed as above excluded interest part.

As the hedged items, the bonds issued on 4 January 2013 have been matured in January 2016 and the bonds issued on 17 December 2015 are hedged in January 2016.

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

| | 2016 | 2015 |
|--------------------------------------|--------------|-------------|
| —hedging instruments | (43,176,713) | (2,017,464) |
| —hedged items: bonds issued | 42,593,810 | 1,119,737 |
| Net (loss)/gain on fair value hedges | (582,903) | 897,727 |

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12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.2 HEDGE ACCOUNTING(continued)

(b) Cash flow hedge

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

For the year ended 31 December 2016, the Bank's net gain from the cash flow hedge of RMB 5.02 million (for the year ended 31 December 2015 :Nil) were recognized in other comprehensive income and the gain and loss arising from ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2016. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2016, as a result of the highly probable cash flows no longer being expected to occur.

13 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

| | 31 December 2016 | 31 December 2015 |
|---|------------------|------------------|
| Financial assets purchased under resale agreements designated at fair value through profit or loss, at fair value | - | 494,955,518 |

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.

14 INTEREST RECEIVABLE

| | 31 December 2016 | 31 December 2015 |
|---|--------------------|--------------------|
| Loans and advances | 201,105,772 | 264,285,454 |
| Deposits and placements with financial institutions | 89,180,543 | 66,391,346 |
| Financial assets at fair value through profit or loss | 65,224,709 | 189,765,039 |
| Investment securities - available-for-sale | 63,713,609 | 69,476,121 |
| Deposits with the central bank | 3,324,931 | 3,367,713 |
| Investment securities - loans and receivables | 68,633 | 248,616 |
| Financial assets purchased under resale agreements | - | 83,540 |
| | <u>422,618,197</u> | <u>593,617,829</u> |

| | 31 December 2015 | Increase in current year | Decrease in current year | 31 December 2016 |
|---------------------|--------------------|--------------------------|--------------------------|--------------------|
| Interest receivable | <u>593,617,829</u> | <u>2,840,261,759</u> | <u>(3,011,261,391)</u> | <u>422,618,197</u> |

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15 LOANS AND ADVANCES

| | 31 December 2016 | 31 December 2015 |
|---------------------------------|-------------------------|-------------------------|
| Retail loans | | |
| -Mortgage loans | 4,447,186,346 | 4,840,099,435 |
| -Others | <u>925,306,377</u> | <u>1,226,347,943</u> |
| | <u>5,372,492,723</u> | <u>6,066,447,378</u> |
| Corporate loans and advances | | |
| -Loans | 23,885,004,021 | 29,070,274,247 |
| -Trade finance | 8,762,446,360 | 8,295,254,828 |
| -Discounted bills and others | <u>374,515,187</u> | <u>1,625,682,192</u> |
| | <u>33,021,965,568</u> | <u>38,991,211,267</u> |
| Total loans | <u>38,394,458,291</u> | <u>45,057,658,645</u> |
| Individual impairment allowance | (90,027,099) | (138,965,870) |
| Collective impairment allowance | <u>(599,758,280)</u> | <u>(1,033,124,513)</u> |
| Total impairment allowance | <u>(689,785,379)</u> | <u>(1,172,090,383)</u> |
| Loans and advances, net | <u>37,704,672,912</u> | <u>43,885,568,262</u> |

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15 LOANS AND ADVANCES (continued)

(1) Industry sector:

| | 31 December 2016 | | 31 December 2015 | |
|--|-------------------------|-------------|-------------------------|-------------|
| | Balance | % | Balance | % |
| Retail loans | 5,372,492,723 | 14% | 6,066,447,378 | 13% |
| Manufacturing | 12,493,596,739 | 33% | 13,996,841,136 | 31% |
| Wholesale and retail business | 8,437,967,731 | 22% | 12,557,725,128 | 28% |
| Real estate | 7,226,859,466 | 19% | 8,285,718,423 | 18% |
| Leasing and commercial services | 1,535,115,748 | 4% | 926,296,047 | 2% |
| Transportation, storage and postal | 928,752,890 | 2% | 429,555,897 | 1% |
| Information and technology | 726,378,234 | 2% | 158,627,809 | 0% |
| Agriculture, Hunting, Forestry and Fishing | 463,694,593 | 1% | 269,334,465 | 1% |
| Construction | 235,067,655 | 1% | 970,848,052 | 2% |
| Technical services | 200,000,000 | 1% | 74,527,680 | 0% |
| Mining industry | 185,874,808 | 0% | 426,625,200 | 1% |
| Hotel and restaurant | 149,387,875 | 0% | 176,710,521 | 0% |
| Others | 439,269,829 | 1% | 718,400,909 | 2% |
| Total gross | 38,394,458,291 | 100% | 45,057,658,645 | 100% |

(2) Geographic sector:

| | 31 December 2016 | 31 December 2015 |
|--------------------|-------------------------|-------------------------|
| Shanghai | 21,254,137,173 | 23,977,689,031 |
| Shenzhen | 4,901,269,000 | 4,024,030,699 |
| Beijing | 4,445,769,609 | 5,403,113,783 |
| Guangzhou | 1,942,638,333 | 2,531,882,265 |
| Chongqing | 1,568,290,926 | 3,455,943,187 |
| Xi'an | 1,504,500,000 | - |
| Nanning | 780,892,094 | 1,193,845,489 |
| Suzhou | 643,603,589 | 1,233,692,039 |
| Hangzhou | 466,124,973 | 827,176,471 |
| Tianjin | 394,617,791 | 1,774,675,516 |
| Others | 492,614,803 | 635,610,165 |
| Total gross | 38,394,458,291 | 45,057,658,645 |

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15 LOANS AND ADVANCES (continued)

(3) By type of collateral and guarantee:

| | 31 December 2016 | 31 December 2015 |
|------------------------------------|-------------------------|-------------------------|
| Clean loans | 8,840,470,411 | 10,694,879,598 |
| With guarantee only | 7,429,658,252 | 8,092,016,608 |
| With collateral only | 11,001,467,569 | 11,893,910,435 |
| With both collateral and guarantee | 11,122,862,059 | 14,376,852,004 |
| Total gross | 38,394,458,291 | 45,057,658,645 |

(4) Loans and advances past due:

| | 31 December 2016 | | | | |
|------------------------------------|-------------------------|-------------------------|-----------------------|-----------------------|--------------------|
| | 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 | 31,632,737 | - | - | - | 31,632,737 |
| With guarantee only | 253,046 | 83,399,750 | 5,109,440 | 819,054 | 89,581,290 |
| With collateral only | 169,144,415 | 20,355,829 | 34,238,429 | 5,247,157 | 228,985,830 |
| With both collateral and guarantee | 67,420,986 | 80,771,928 | 30,026,767 | 10,658,104 | 188,877,785 |
| Total gross | 268,451,184 | 184,527,507 | 69,374,636 | 16,724,315 | 539,077,642 |

| | 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 |

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15 LOANS AND ADVANCES (continued)

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

| | 2016 | | |
|---|--------------------------|--------------------------|---------------|
| | Individually assessed | Collectively assessed | Total |
| At 1 January | 138,965,870 | 1,033,124,513 | 1,172,090,383 |
| Impairment losses/(reversals) for loans and advances (Note 42) | 511,058,220 | (433,366,233) | 77,691,967 |
| Transfer out provision for non performing loan sell down(Note 42) | (525,261,083) | - | (525,261,083) |
| Current Year Write-off | (272,326,315) | - | (272,326,315) |
| Reversal of previously write off loans for non performing loan sell down | 237,905,219 | - | 237,905,219 |
| Exchange difference | (314,792) | - | (314,792) |
| At 31 December | 90,027,099 | 599,758,280 | 689,785,379 |

| | 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 |

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16 INVESTMENT SECURITIES - AVAILABLE-FOR-SALE

| | 31 December 2016 | 31 December 2015 |
|------------------------------|----------------------|----------------------|
| At fair value | | |
| Corporate bonds | - | 136,609,475 |
| Treasury bonds | 549,246,720 | 251,981,996 |
| Local Treasury bonds | 39,564,148 | - |
| PBOC notes | - | 100,601,267 |
| Bonds issued by policy banks | 1,562,005,379 | 2,311,406,916 |
| | <u>2,150,816,247</u> | <u>2,800,599,654</u> |

As at 31 Dec 2016, the notional amount of available for sale financial assets pledged is RMB 590,000,000. The notional amount of available for sale financial assets pledged is RMB 1,040,000,000 as at 31 Dec 2015.

17 INVESTMENT SECURITIES - LOANS AND RECEIVABLES

| | 31 December 2016 | 31 December 2015 |
|--|--------------------|--------------------|
| Assets backed securities | 122,800,000 | 446,422,500 |
| Impairment allowance-collectively assessed | (1,257,472) | (3,285,670) |
| | <u>121,542,528</u> | <u>443,136,830</u> |

18 FIXED ASSETS

| | Office equipment and furniture | Computers and other electronic equipment | Total |
|-------------------------------------|--------------------------------------|--|--------------------|
| Cost | | | |
| At 1 January 2016 | 103,337,296 | 208,771,949 | 312,109,245 |
| Add: Transfer-in and other addition | 6,907,426 | 29,820,426 | 36,727,852 |
| Less: Disposal/write-off | (7,322,570) | (6,332,804) | (13,655,374) |
| At 31 December 2016 | <u>102,922,152</u> | <u>232,259,571</u> | <u>335,181,723</u> |
| Accumulated depreciation | | | |
| At 1 January 2016 | 72,359,771 | 129,620,833 | 201,980,604 |
| Add: Charge for the year | 9,397,473 | 30,491,309 | 39,888,782 |
| Less: Disposal/write-off | (5,757,607) | (5,648,314) | (11,405,921) |
| At 31 December 2016 | <u>75,999,637</u> | <u>154,463,828</u> | <u>230,463,465</u> |
| Net book value | | | |
| At 31 December 2016 | <u>26,922,515</u> | <u>77,795,743</u> | <u>104,718,258</u> |

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18 FIXED ASSETS(continued)

| | 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 | 103,337,296 | 208,771,949 | 312,109,245 |
| 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 | 72,359,771 | 129,620,833 | 201,980,604 |
| Net book value | | | |
| At 31 December 2015 | 30,977,525 | 79,151,116 | 110,128,641 |

19 LONG-TERM PREPAID EXPENSES

| | Leasehold improvement | Others | Total |
|------------------------|-----------------------|-----------|-------------|
| As at 1 January 2016 | 19,938,910 | 340,619 | 20,279,529 |
| Additions | 2,063,010 | - | 2,063,010 |
| Transfer-out | (596,866) | - | (596,866) |
| Amortization | (7,093,787) | (28,784) | (7,122,571) |
| As at 31 December 2016 | 14,311,267 | 311,835 | 14,623,102 |
| 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 |

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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 2015: 25%).

The movements of deferred taxation are shown as below:

| | 2016 | 2015 |
|-----------------------------------|--------------------|--------------------|
| At beginning of year | 406,120,475 | 305,382,068 |
| Income statement credit (Note 43) | (52,842,412) | 111,547,566 |
| Available-for-sale securities | | |
| -Fair value measurement (Note 44) | 11,033,025 | (10,809,159) |
| Cash flow hedge reserve (Note 44) | (1,672,035) | - |
| At end of year | <u>362,639,053</u> | <u>406,120,475</u> |

(1) Deferred tax assets

| | 31 December 2016 | | 31 December 2015 | |
|--|------------------------|--|------------------------|--|
| | Deferred tax assets | Deductible temporary differences | Deferred tax assets | Deductible temporary differences |
| Provision for loan impairment | 229,184,215 | 916,736,859 | 313,231,511 | 1,252,926,045 |
| Provision for other impairment | 217,790,267 | 871,161,066 | 26,812,964 | 107,251,854 |
| Fair value measurement of available-for-sale securities | 427,705 | 1,710,821 | - | - |
| Share based incentive plan payment not exercised | 12,030,527 | 48,122,108 | 8,920,021 | 35,680,084 |
| Accrued expenses | 89,146,229 | 356,584,917 | 99,775,706 | 399,102,825 |
| Losses for disposal of fixed assets | 491,525 | 1,966,101 | 64,543 | 258,173 |
| Total losses carry forward | <u>51,616,789</u> | <u>206,467,156</u> | <u>-</u> | <u>-</u> |
| | <u>600,687,257</u> | <u>2,402,749,028</u> | <u>448,804,745</u> | <u>1,795,218,981</u> |

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20 DEFERRED INCOME TAX ASSETS(continued)

(1) Deferred tax assets(continued)

The estimated amount to be recovered comprised:

| | 31 December 2016 | | 31 December 2015 | |
|----------------------------------|-------------------------|----------------------|-------------------------|----------------------|
| Within 1 year (including 1 year) | 89,146,229 | 356,584,917 | 99,775,706 | 399,102,825 |
| After 1 year | 511,541,028 | 2,046,164,111 | 349,029,039 | 1,396,116,156 |
| | <u>600,687,257</u> | <u>2,402,749,028</u> | <u>448,804,745</u> | <u>1,795,218,981</u> |

(2) Deferred tax liabilities

| | 31 December 2016 | | 31 December 2015 | |
|---|--------------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| | Deferred tax liabilities | Taxable temporary differences | Deferred tax liabilities | Taxable temporary differences |
| Fair value measurement of financial assets at fair value through profit and loss | (236,376,169) | (945,504,674) | (32,078,950) | (128,315,794) |
| Fair value measurement of available-for-sale securities | - | - | (10,605,320) | (42,421,278) |
| Others | (1,672,035) | (6,688,140) | - | - |
| | <u>(238,048,204)</u> | <u>(952,192,814)</u> | <u>(42,684,270)</u> | <u>(170,737,072)</u> |

The estimated amount to be recovered comprised:

| | | | | |
|----------------------------------|----------------------|----------------------|---------------------|----------------------|
| Within 1 year (including 1 year) | (2,505,247) | (10,020,987) | (2,754,259) | (11,017,035) |
| After 1 year | (235,542,957) | (942,171,827) | (39,930,011) | (159,720,037) |
| | <u>(238,048,204)</u> | <u>(952,192,814)</u> | <u>(42,684,270)</u> | <u>(170,737,072)</u> |

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

| | 31 December 2016 | 31 December 2015 |
|--------------------------|-------------------------|-------------------------|
| Deferred tax assets, net | <u>362,639,053</u> | <u>406,120,475</u> |

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21 OTHER ASSETS

| | 31 December 2016 | 31 December 2015 |
|--|----------------------|--------------------|
| Security Deposits & Guarantee fund | 888,682,495 | 312,774,887 |
| Receivables from related parties (Note 50(e)(3)(iii)) | 23,347,520 | 14,248,367 |
| Settlement receivables from customers | 369,538,075 | 71,768,355 |
| Provision for settlement receivables from customers | (131,678,081) | (35,115,254) |
| Net settlement receivables from customers | 237,859,994 | 36,653,101 |
| Prepaid expenses | 16,636,869 | 17,849,843 |
| Others | 242,026,915 | 239,393,657 |
| | <u>1,408,553,793</u> | <u>620,919,855</u> |

| | 2016 | 2015 |
|--|--|--|
| | Provision for settlement receivables from customers | Provision for settlement receivables from customers |
| At 1 January | 35,115,254 | 21,223,346 |
| Impairment losses | 146,215,549 | 82,742,838 |
| Transfer in provision for non performing loan sell down | 525,261,083 | - |
| Write-off | (574,736,560) | (64,879,087) |
| Foreign Exchange difference | (177,245) | (3,971,843) |
| At 31 December | <u>131,678,081</u> | <u>35,115,254</u> |

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22 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

| | 31 December 2016 | 31 December 2015 |
|---|----------------------|-----------------------|
| Deposits from domestic financial institutions | 2,043,592,801 | 2,343,319,405 |
| Deposits from overseas financial institutions | 4,163,759,477 | - |
| Deposits from overseas related parties (Note 50(e)(3)(iv)) | 2,486,076,208 | 13,486,076,043 |
| | <u>8,693,428,486</u> | <u>15,829,395,448</u> |

23 BORROWING FROM OTHER BANKS

| | 31 December 2016 | 31 December 2015 |
|---|-----------------------|-----------------------|
| Placements from domestic banks | 4,523,084,000 | 5,172,120,000 |
| Placements from overseas related parties (Note 50(e)(3)(iv)) | 7,104,559,459 | 6,490,382,133 |
| | <u>11,627,643,459</u> | <u>11,662,502,133</u> |

24 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

| | 31 December 2016 | 31 December 2015 |
|--|----------------------|----------------------|
| Financial assets sold under repurchase agreements designated at fair value through profit or loss, at fair value | <u>1,970,930,248</u> | <u>3,518,960,169</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 2016 | 31 December 2015 |
|---|-----------------------|-----------------------|
| At amortized cost | | |
| Corporate current deposits | 9,873,757,996 | 11,628,411,191 |
| Corporate time deposits | 24,945,998,223 | 15,398,240,353 |
| Retail current deposits | 2,003,237,095 | 1,445,824,951 |
| Retail time deposits | 4,459,550,725 | 2,719,820,979 |
| SIPs sold to corporate customers | 6,469,089,676 | 12,447,005,034 |
| SIPs sold to retail customers | 1,034,155,220 | 1,263,918,049 |
| | <u>48,785,788,935</u> | <u>44,903,220,557</u> |
| SIPs designated at fair value through profit or loss | | |
| SIPs sold to retail customers | - | 84,189,550 |
| | - | <u>84,189,550</u> |
| | <u>48,785,788,935</u> | <u>44,987,410,107</u> |

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26 PAYROLL AND WELFARE PAYABLE

| | 31 December 2016 | 31 December 2015 |
|------------------------------|--------------------|--------------------|
| Short-term employee benefits | 125,681,450 | 136,525,018 |
| Defined contribution plans | 5,591,363 | 5,664,030 |
| | <u>131,272,813</u> | <u>142,189,048</u> |

| | 31 December 2015 | Additions | Deductions | 31 December 2016 |
|------------------------------|--------------------|----------------------|------------------------|--------------------|
| Short-term employee benefits | 136,525,018 | 893,657,620 | (904,501,188) | 125,681,450 |
| Defined contribution plans | 5,664,030 | 136,275,798 | (136,348,465) | 5,591,363 |
| | <u>142,189,048</u> | <u>1,029,933,418</u> | <u>(1,040,849,653)</u> | <u>131,272,813</u> |

27 TAXES PAYABLE

| | 31 December 2016 | 31 December 2015 |
|--|-------------------|--------------------|
| Income tax payable | - | 44,559,973 |
| Business tax and surcharges payable | - | 35,352,925 |
| Value added tax and surcharges payable | 29,261,523 | - |
| Withholding corporate tax | 6,457,468 | 24,176,852 |
| Withholding individual income tax and others | 24,435,737 | 27,259,448 |
| | <u>60,154,728</u> | <u>131,349,198</u> |

28 INTEREST PAYABLE

| | 31 December 2016 | 31 December 2015 |
|--|--------------------|--------------------|
| Due to customers | 338,755,233 | 786,326,808 |
| Bonds issued | 3,534,247 | 72,128,015 |
| Deposits / borrowing from other banks and financial institutions | 38,430,435 | 14,213,377 |
| Financial assets sold under repurchase agreements | 494,861 | 702,809 |
| | <u>381,214,776</u> | <u>873,371,009</u> |

| | 31 December 2015 | Increase in current year | Decrease in current year | 31 December 2016 |
|------------------|------------------|--------------------------|--------------------------|------------------|
| Interest payable | 873,371,009 | 1,516,735,979 | (2,008,892,212) | 873,371,009 |

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29 BONDS ISSUED

| | 31 December 2016 | 31 December 2015 |
|-----------------------------------|-------------------------|-------------------------|
| Negotiable Certificate of Deposit | 598,152,456 | - |
| RMB bond | <u>1,951,858,460</u> | <u>3,495,605,196</u> |
| | <u>2,550,010,916</u> | <u>3,495,605,196</u> |

On 4 Jan 2013, the Bank issued a financial bond with notional amount of RMB1,500 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.

On 7 November 2016, the Bank issued a Negotiable Certificate of Deposit with notional amount of RMB 600 million in the PRC inter-bank market. The bond bears interest at annual rate of 2.9714% and its maturity date is 8 February 2017.

30 OTHER LIABILITIES

| | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Accrued expenses | 170,902,908 | 142,170,486 |
| Payable to overseas related parties (Note 50(e)(3)(viii)) | 708,233,307 | 625,235,219 |
| Settlements payable | 402,326,661 | 454,260,571 |
| Unearned commission income | 26,330,454 | 30,123,633 |
| Provision for loss in respect of off-balance sheet credit exposures | 94,638,023 | - |
| Non-principal protected SIPs | 597,540,538 | - |
| MTM Margin from Shanghai Clearing House | 1,666,744,806 | 17,008,337 |
| Others | <u>166,122,749</u> | <u>11,531,852</u> |
| | <u>3,832,839,446</u> | <u>1,280,330,098</u> |

31 PAID-IN CAPITAL

| | 31 December 2016 | 31 December 2015 |
|---------------------------------------|-------------------------|-------------------------|
| Registered and fully paid by DBS Bank | <u>8,000,000,000</u> | <u>6,300,000,000</u> |

Pursuant to the approval from CBRC on 9 September 2016 (Hu Yin Jian Fu(2016) No.382), DBS Bank Limited injected additional capital to the Bank amounted to RMB 1.7 billion. Such capital injection was verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company.

Before the additional capital injection, the registered capital of the Bank was RMB 6.3 billion, verified by Ernst&Young Hua Ming CPAs Company Limited and PricewaterhouseCoopers Zhong Tian CPAs Limited Company.

As of 31 December 2016, the paid-in capital of the Bank is equivalent RMB 8.0 billion.

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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 2016 | 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 2016 | 31 December 2015 |
|-----------------------|--------------------|--------------------|
| Reserve Fund | | |
| At beginning of year | 231,313,487 | 219,306,108 |
| Current year addition | <u>11,320,559</u> | <u>12,007,379</u> |
| At end of year | <u>242,634,046</u> | <u>231,313,487</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.

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34 GENERAL RISK RESERVE

| | 31 December 2016 | 31 December 2015 |
|-----------------------|--------------------|--------------------|
| At beginning of year | 945,200,000 | 872,700,000 |
| Current year addition | <u>45,600,000</u> | <u>72,500,000</u> |
| At end of year | <u>990,800,000</u> | <u>945,200,000</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 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.

35 UNDISTRIBUTED PROFITS

On 7 February 2017, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 6.0 million, in accordance with Circular Caijin No.20 issued in 2012.

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36 NET INTEREST INCOME

| | 2016 | 2015 |
|---|------------------------|------------------------|
| Interest income: | | |
| Loans and advances | 2,236,145,535 | 2,697,865,641 |
| Due from other banks and financial institutions | 236,218,283 | 674,836,519 |
| Deposits with the central bank | 101,612,310 | 151,326,702 |
| Financial assets at fair value through profit or loss | 177,281,180 | 292,615,665 |
| Investment securities – available- for-sale | 74,136,108 | 119,015,619 |
| Financial assets purchased under resale agreements | 3,774,113 | 32,070,764 |
| Investment securities - loans and receivables | 9,475,958 | 6,905,464 |
| Others | 1,618,272 | 5,380,894 |
| | <u>2,840,261,759</u> | <u>3,980,017,268</u> |
| Interest expense: | | |
| Due to other banks and financial institutions | (312,074,914) | (127,201,166) |
| Due to customers | (1,062,234,247) | (2,114,388,818) |
| Bonds issued | (93,158,214) | (83,711,142) |
| Financial assets sold under repurchase agreements | (49,268,604) | (74,205,162) |
| | <u>(1,516,735,979)</u> | <u>(2,399,506,288)</u> |
| Net interest income | <u>1,323,525,780</u> | <u>1,580,510,980</u> |
| Comprising | | |
| Interest income for financial assets at fair value through profit or loss | 181,055,293 | 324,686,429 |
| Interest income for financial assets not at fair value through profit or loss | 2,659,206,466 | 3,655,330,839 |
| Interest expense for financial liabilities at fair value through profit or loss | (49,268,604) | (74,205,162) |
| Interest expense for financial liabilities not at fair value through profit or loss | (1,467,467,375) | (2,325,301,126) |
| | <u>1,323,525,780</u> | <u>1,580,510,980</u> |

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37 NET FEE AND COMMISSION INCOME

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Fee and commission income | | |
| Loan and trade related fee | 178,548,131 | 308,843,560 |
| Wealth management fee | 62,847,442 | 55,052,238 |
| Treasury advisory fee | 46,361,702 | 22,319,352 |
| Syndication fee | 39,299,035 | 14,917,548 |
| Cash Management fee | 13,464,095 | 13,564,923 |
| Others | 17,273,940 | 4,087,810 |
| | <u>357,794,345</u> | <u>418,785,431</u> |
| Fee and commission expense | | |
| Settlement and clearing fees, brokerage expenses | <u>(69,311,761)</u> | <u>(71,967,357)</u> |
| Net fee and commission income | <u>288,482,584</u> | <u>346,818,074</u> |

38 INVESTMENT GAINS

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Financial assets at fair value through profit or loss | 96,350,644 | 143,409,380 |
| Investment securities –available-for-sale | 22,316,582 | 6,584,996 |
| | <u>118,667,226</u> | <u>149,994,376</u> |

39 FAIR VALUE GAINS

| | 2016 | 2015 |
|--|--------------------|--------------------|
| Net unrealized gains on financial assets purchased under resale and sold under repurchase agreements | 74,403 | 3,278,360 |
| Net unrealized gains on financial assets at fair value through profit or loss | 33,015,060 | 47,786,385 |
| Net unrealized gains on derivative instruments | 784,099,421 | 98,967,838 |
| | <u>817,188,884</u> | <u>150,032,583</u> |

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40 NET (LOSSES)/GAINS FROM FOREIGN EXCHANGE AND DERIVATIVE TRANSACTIONS

| | 2016 | 2015 |
|---|----------------------|--------------------|
| Net (losses)/gains from foreign exchange and derivatives transactions | <u>(339,911,474)</u> | <u>462,339,203</u> |

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

41 GENERAL AND ADMINISTRATIVE EXPENSES

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Salaries and bonus | 827,751,956 | 823,667,279 |
| Social insurance and other welfare benefits | 202,181,462 | 208,201,236 |
| Share-based compensation plan | 26,323,884 | 22,745,418 |
| Telecommunications and computers | 218,027,584 | 226,843,146 |
| Rental and utilities | 182,683,810 | 195,564,812 |
| Depreciation and amortization | 47,011,353 | 48,154,452 |
| Travelling expenses | 20,853,096 | 29,578,432 |
| Business entertainment expenses | 11,810,703 | 12,584,069 |
| Staff training expenses | 4,455,062 | 5,865,405 |
| Others | 150,712,285 | 143,945,900 |
| | <u>1,691,811,195</u> | <u>1,717,150,149</u> |

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42 ASSET IMPAIRMENT LOSSES

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Impairment losses on loans and advances (Note 15(5)) | (447,569,116) | 535,851,373 |
| Impairment losses on contingent liabilities | 94,638,023 | - |
| Impairment losses on other assets for non- performing assets sell down (Note 21) | 525,261,083 | - |
| Recovery of loans previously written-off | (39,897,793) | (8,881,027) |
| Impairment losses on other assets (Note 21) | 146,215,549 | 82,742,838 |
| Impairment losses on investment securities -loans and receivables | (2,028,198) | 3,285,670 |
| | <u>276,619,548</u> | <u>612,998,854</u> |

43 INCOME TAX

| | 2016 | 2015 |
|-------------------------------|-------------------|-------------------|
| Current income tax | (4,643,323) | 156,812,324 |
| Deferred income tax (Note 20) | 52,842,412 | (111,547,566) |
| | <u>48,199,089</u> | <u>45,264,758</u> |

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

| | 2016 | 2015 |
|--|--------------------|--------------------|
| Profit before income tax | <u>161,404,678</u> | <u>165,338,547</u> |
| Income tax calculated at 25% (2015: 25%) | 40,351,170 | 41,334,637 |
| Annual tax filing differences | (739,715) | (3,022,003) |
| Non-taxable income | (3,104,808) | (5,183,381) |
| Non-deductible expenses | 11,890,217 | 12,324,538 |
| Others | (197,775) | (189,033) |
| | <u>48,199,089</u> | <u>45,264,758</u> |

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44 OTHER COMPREHENSIVE INCOME

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

| | 2016 | | |
|---|---------------------|------------------|---------------------|
| | 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 | (45,131,603) | 11,282,901 | (33,848,702) |
| Less: Reclassification of other comprehensive income to profit or loss | (999,504) | 249,876 | (749,628) |
| Cash flow hedge reserve | 6,688,140 | (1,672,035) | 5,016,105 |
| Total other comprehensive income | (37,444,409) | 9,360,990 | (28,082,969) |

| | 2015 | | |
|---|-------------------|-------------------|-------------------|
| | 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 | 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 |

- (2) Reconciliation of other comprehensive income

| | Gains or losses arising from changes in fair value of available-for-sale financial assets | Cash flow hedge | Total other comprehensive income |
|---|---|-----------------|----------------------------------|
| 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 |
| Movements for the year ended 31 December 2016 | (33,099,074) | 5,016,105 | (28,082,969) |
| 31 December 2016 | (1,283,115) | 5,016,105 | 3,732,990 |

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45 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

| | 31 December 2016 | 31 December 2015 |
|---|-------------------------|-------------------------|
| Cash (Note 8) | 53,689,121 | 54,513,275 |
| Balances with the PBOC other than restricted reserve deposits (Note 8) | 5,389,065,606 | 7,181,500,250 |
| Deposits with other banks with original terms less than three months from acquisition date | 5,144,247,820 | 6,025,513,605 |
| Placements with financial institutions with original terms less than three months from acquisition date | <u>5,136,932,000</u> | <u>4,349,895,187</u> |
| | <u>15,723,934,547</u> | <u>17,611,422,317</u> |

(2) Cash flows from operating activities

| | Notes | 2016 | 2015 |
|--|--------------|------------------------|------------------------|
| Net profit | | 113,205,589 | 120,073,789 |
| Adjusted by: | | | |
| Impairment charge for asset losses | 42 | 316,517,341 | 621,879,881 |
| Depreciation and amortization | 41 | 47,011,353 | 48,154,452 |
| Interest income for investment securities – available-for-sale and Investment securities - loans and receivables | 36 | (83,612,066) | (125,921,083) |
| Gains for investment securities – available-for-sale | 38 | (22,316,582) | (6,584,996) |
| Losses on disposal of fixed assets and other long-term assets | | 1,321,654 | 1,061,089 |
| Interest expenses of bonds issued | | 93,158,214 | 83,711,142 |
| Fair value gains | 39 | (817,188,884) | (150,032,583) |
| Decrease/ (Increase) in deferred income tax assets | 43 | 52,842,412 | (111,547,566) |
| (Increase)/ Decrease in operating receivables | | (218,597,889) | 9,354,878,419 |
| Increase in operating payables | | <u>(3,260,885,723)</u> | <u>(6,733,626,149)</u> |
| Net cash (used)/provided from operating activities | | <u>(3,778,544,581)</u> | <u>3,102,046,395</u> |

(3) Net increase in cash and cash equivalents:

| | | |
|---|------------------------|-----------------------|
| Cash and cash equivalents at end of year | 15,723,934,547 | 17,611,422,317 |
| Less: cash and cash equivalents at beginning of year | <u>17,611,422,317</u> | <u>13,009,588,700</u> |
| Net (decrease)/increase in cash and cash equivalents | <u>(1,887,487,770)</u> | <u>4,601,833,617</u> |

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

| | 31 December 2016 | 31 December 2015 |
|--------------------------------|-----------------------|-----------------------|
| Letters of credit issued | 3,442,944,799 | 5,906,445,522 |
| Standby letter of credit | 8,287,686,672 | 10,006,994,542 |
| Letters of guarantee issued | 2,230,085,195 | 1,030,442,218 |
| Irrevocable loan commitment | 3,379,431,431 | 2,460,165,488 |
| Bank acceptances | 2,376,076,932 | 1,620,584,959 |
| Letters of credit confirmation | 23,363,087 | 361,048,171 |
| | <u>19,739,588,116</u> | <u>21,385,680,900</u> |

(2) Operating lease commitments

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

| | 31 December 2016 | 31 December 2015 |
|-------------------------------|--------------------|--------------------|
| Within 1 year | 167,423,808 | 153,431,509 |
| Over 1 year less than 2 years | 80,380,097 | 124,861,081 |
| Over 2 year less than 3 years | 39,076,686 | 38,592,162 |
| Over 3 years | 3,212,589 | 23,920,468 |
| | <u>290,093,180</u> | <u>340,805,220</u> |

(3) Legal proceedings

At 31 December 2016, there was no significant legal proceeding against the Bank (31 December 2015: nil).

(4) Capital commitments

As at 31 December 2016, the Bank has no significant capital commitments which require separate disclosure (31 December 2015: nil).

47 SUBSEQUENT EVENTS

On 7 February 2017, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 6.0 million, in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 996.8 million.

Except that, there were no subsequent events after the balance sheet date which requires additional disclosure at 7 February 2017.

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SEGMENT INFORMATION

RMB('thousand)

| 31 December 2016 | Head office | Shanghai | Beijing | Shenzhen | Guangzhou | Suzhou | Chongqing | Tianjin | Nanning | Others | Elimination | Total |
|---|-------------|--------------|--------------|-------------|-------------|-------------|-------------|-----------|-----------|-------------|--------------|--------------|
| Interest income | 185,738 | 2,531,141 | 483,548 | 626,770 | 229,488 | 81,471 | 118,982 | 41,719 | 47,390 | 192,467 | (1,698,452) | 2,840,262 |
| Interest expense | (138,617) | (1,896,704) | (277,086) | (474,033) | (163,778) | (41,314) | (47,112) | (24,976) | (27,443) | (124,125) | 1,698,452 | (1,516,736) |
| Net interest income | 47,121 | 634,437 | 206,462 | 152,737 | 65,710 | 40,157 | 71,870 | 16,743 | 19,947 | 68,342 | - | 1,323,526 |
| Fee and commission income | - | 180,496 | 61,368 | 28,582 | 13,028 | 13,973 | 18,611 | 3,283 | 2,104 | 36,349 | - | 357,794 |
| Fee and commission expenses | (1) | (68,551) | (203) | (317) | (135) | (8) | (23) | (26) | (3) | (45) | - | (69,312) |
| Net fee and commission income | (1) | 111,945 | 61,165 | 28,265 | 12,893 | 13,965 | 18,588 | 3,257 | 2,101 | 36,304 | - | 288,482 |
| Other income | 99,005 | 361,313 | 47,707 | 25,146 | 28,478 | 15,514 | 12,205 | 5,115 | 339 | 8,946 | - | 603,768 |
| Operating expenses | (160,985) | (850,561) | (296,728) | (200,625) | (101,372) | (20,581) | (12,543) | (258,295) | (91,497) | (70,880) | - | (2,064,067) |
| Non-operating income/(losses) | 7,390 | 3,416 | (862) | 105 | (187) | (701) | 247 | 46 | 229 | 12 | - | 9,695 |
| Total profit/(loss) before tax | (7,470) | 260,550 | 17,744 | 5,628 | 5,522 | 48,354 | 90,367 | (233,134) | (68,881) | 42,724 | - | 161,404 |
| Loans and advances, net | - | 20,721,606 | 4,431,843 | 4,865,261 | 1,937,490 | 635,093 | 1,554,663 | 351,997 | 771,526 | 2,435,194 | - | 37,704,673 |
| Total assets | 6,810,593 | 69,945,464 | 12,232,061 | 8,083,486 | 3,593,531 | 2,505,237 | 1,970,210 | 641,222 | 777,226 | 5,026,838 | (14,900,141) | 96,685,727 |
| Due to customers | - | (25,367,326) | (8,003,794) | (6,988,776) | (1,502,927) | (2,168,191) | (1,009,037) | (339,356) | (430,546) | (2,975,836) | - | (48,785,789) |
| Total liabilities | (2,294,783) | (67,548,497) | (11,347,358) | (7,134,331) | (3,132,593) | (2,212,293) | (1,679,516) | (577,574) | (687,209) | (4,519,070) | 14,900,141 | (86,233,083) |
| Impairment (reversals)/charge for credit losses | - | (154,771) | 77,316 | 48,371 | 18,223 | (7,853) | (18,550) | 234,027 | 76,986 | 2,871 | - | 276,620 |
| Depreciation and amortization | 590 | 34,144 | 6,124 | 985 | 1,356 | 181 | 649 | 519 | 430 | 2,033 | - | 47,011 |
| Capital expenditure | (1,706) | 29,954 | 1,448 | 230 | 3,932 | 9 | 1,024 | - | 92 | 3,808 | - | 38,791 |

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DBS BANK (CHINA) LIMITED

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SEGMENT INFORMATION(continued)

| RMB('thousand) 31 December 2015 | Headoffice | Shanghai | Beijing | Shenzhen | Guangzhou | Suzhou | Chongqing | Tianjin | Nanning | Others | Elimination | Total |
|---|-------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Interest income | 469,315 | 11,707,589 | 3,757,032 | 2,887,898 | 1,328,490 | 436,146 | 377,011 | 711,012 | 332,773 | 1,767,026 | (19,794,275) | 3,980,017 |
| Interest expense | (561,475) | (10,933,592) | (3,474,005) | (2,688,586) | (1,181,077) | (368,869) | (311,866) | (628,265) | (294,107) | (1,751,939) | 19,794,275 | (2,399,506) |
| Net interest income | (92,160) | 773,997 | 283,027 | 199,312 | 147,413 | 67,277 | 65,145 | 82,747 | 38,666 | 15,087 | - | 1,580,511 |
| Fee and commission income | - | 195,013 | 70,477 | 44,953 | 29,989 | 9,818 | 11,354 | 15,124 | 18,781 | 23,276 | - | 418,785 |
| Fee and commission expenses | (1) | (71,350) | (172) | (273) | (94) | (45) | (76) | (38) | (7) | 89 | - | (71,967) |
| Net fee and commission income | (1) | 123,663 | 70,305 | 44,680 | 29,895 | 9,773 | 11,278 | 15,086 | 18,774 | 23,365 | - | 346,818 |
| Other income | 81,704 | 340,167 | 115,611 | 82,840 | 24,221 | 6,581 | 2,974 | 30,638 | 1,235 | 80,592 | - | 766,563 |
| Operating expenses | (217,659) | (1,135,791) | (461,803) | (246,034) | (123,701) | (46,938) | (45,322) | (120,153) | (50,476) | (105,460) | - | (2,553,337) |
| Non-operating income/(losses) | 14,580 | 3,153 | 5,137 | 516 | (256) | 115 | 1,409 | (112) | 56 | 185 | - | 24,783 |
| Total profit/(loss) before tax | (213,536) | 105,189 | 12,277 | 81,314 | 77,572 | 36,808 | 35,484 | 8,206 | 8,255 | 13,769 | - | 165,338 |
| Loans and advances, net | - | 23,286,714 | 5,274,624 | 3,931,318 | 3,291,388 | 1,784,375 | 2,852,655 | 1,677,146 | 1,166,689 | 620,659 | - | 43,885,568 |
| Total assets | 6,925,957 | 66,175,679 | 11,558,060 | 6,085,585 | 5,764,542 | 3,464,819 | 2,893,556 | 1,842,569 | 1,182,228 | 3,122,404 | (13,686,643) | 95,328,756 |
| Due to customers | (45,978) | (22,060,098) | (8,424,760) | (4,309,113) | (5,172,642) | (3,236,359) | (1,273,524) | (937,663) | (120,025) | 592,752 | - | (44,987,410) |
| Total liabilities | (3,963,838) | (64,001,819) | (10,691,100) | (5,142,057) | (5,364,909) | (3,264,384) | (2,768,703) | (1,545,786) | (1,023,331) | (2,581,950) | 13,686,643 | (86,661,234) |
| Impairment (reversals)/charge for credit losses | 20,000 | 135,471 | 218,295 | 63,476 | 18,042 | 9,524 | 10,646 | 77,520 | 28,412 | 31,613 | - | 612,999 |
| Depreciation and amortization | 560 | 33,149 | 6,119 | 2,063 | 2,821 | 304 | 1,285 | 539 | 107 | 1,207 | - | 48,154 |
| Capital expenditure | 2,263 | 89,899 | 4,872 | 552 | 132 | 217 | 36 | 1,939 | 2,372 | 7,796 | - | 110,078 |

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DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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48 SEGMENT INFORMATION(continued)

Geographical Information

The Bank's revenue from external customers is mainly from mainland China for 2016 and 2015. As at 31 December 2016 and 2015, all non-current assets of the Bank are located in mainland China.

49 Share-based Compensation Plans

The Bank provides various share-based compensation plans to foster a culture that aligns employees' interests with shareholders, enable employees to share in the bank's performance and enhance talent retention.

DBSH Share Plan (Share Plan)

- The Share Plan is granted to the Bank's executives as determined by the Committee appointed to administer the Share Plan from time to time.
- Participants are awarded equivalent cash value of shares of the Group Company
- Awards consist of main award and retention award (20% of main award). Dividends on unvested shares do not accrue to employees.
- The vesting of main award is staggered between 2 to 4 years after grant i.e. 33% will vest 2 years after grant; another 33% will vest on the third year and the remaining 34% plus the retention award will vest 4 years after grant.
- The market price of shares on the grant date is used to estimate the fair value of the shares awarded.

DBSH Employee Share Plan (ESP)

- The ESP caters to employees not eligible to participate in the above listed Share Plan. Eligible employees are awarded ordinary shares of the Company, their equivalent cash value or a combination of both (at the discretion of the Committee), when time-based conditions are met.
- The awards structure and vesting conditions are similar to Share Plan.
- There are no additional retention awards for shares granted to top performers and key employees.
- However, in specific cases where the award forms part of an employee's annual performance remuneration, the retention award which constitutes 20% of the shares given in the main award will be granted. The shares in the retention award will vest 4 years after the date of grant.

| Number of shares | 2016 | | 2015 | |
|---|------------|----------|------------|----------|
| | Share Plan | ESP | Share Plan | ESP |
| Balance at 1 January | 747,628 | 173,822 | 662,274 | 137,787 |
| Granted | 204,899 | 101,900 | 264,355 | 87,616 |
| Transfer | (400,390) | (510) | 22,266 | (3,409) |
| Vested | (91,311) | (47,036) | (169,319) | (27,174) |
| Forfeited | (28,088) | (32,490) | (31,948) | (20,998) |
| Balance at 31 December | 432,738 | 195,686 | 747,628 | 173,822 |
| Weighted average fair value of the shares granted during the year | 13.69 | 13.69 | 19.51 | 19.51 |

DBS BANK (CHINA) LIMITED

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50 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 25,959 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 2015 | Change | 31 December 2016 |
|----------------|--------------------|-------------------|--------------------|
| DBS Bank Ltd. | SGD 23,496 Million | SGD 2,463 Million | SGD 25,959 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 2015 | | Change | | 31 December 2016 | |
|----------------|------------------|-----|-----------------|-----|------------------|-----|
| | Amount | % | Amount | % | Amount | % |
| DBS Bank Ltd. | RMB 6.3 Billion | 100 | RMB 1.7 Billion | 100 | RMB 8.0 Billion | 100 |

DBS BANK (CHINA) LIMITED

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50 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

| | 2016 | 2015 |
|---------------|-------------------|-------------------|
| DBS Bank Ltd. | 20,698,146 | 23,303,993 |
| | <u>20,698,146</u> | <u>23,303,993</u> |

(ii) Interest expense

| | 2016 | 2015 |
|------------------------------|--------------------|--------------------|
| DBS Bank Ltd. | 225,509,882 | 513,960,448 |
| DBS Bank (Hong Kong) Limited | 41,284,635 | 8,215,656 |
| | <u>266,794,517</u> | <u>522,176,104</u> |

DBS BANK (CHINA) LIMITED

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50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Relatedpartytransactions(continued)

(2) Significantrelatedpartytransactions(continued)

(iii) Net losses from foreign exchange and derivative transactions

| | 2016 | 2015 |
|------------------------------|----------------------|----------------------|
| DBS Bank Ltd. | (16,897,621) | (509,254,660) |
| DBS Bank (Hong Kong) Limited | (96,582,839) | 19,414,653 |
| | <u>(113,480,460)</u> | <u>(489,840,007)</u> |

(iv) Fair value gains/losses

| | 2016 | 2015 |
|------------------------------|--------------------|---------------------|
| DBS Bank Ltd. | 110,254,927 | 15,145,994 |
| DBS Bank (Hong Kong) Limited | 98,106,137 | (58,000,745) |
| | <u>208,361,064</u> | <u>(42,854,751)</u> |

(v) Service charge

| | 2016 | 2015 |
|------------------------------|-------------------|-------------------|
| DBS Bank Ltd. | 87,185,473 | 72,960,586 |
| DBS Bank (Hong Kong) Limited | 7,389,414 | 7,743,996 |
| | <u>94,574,887</u> | <u>80,704,582</u> |

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

(vi) Non-performing assets sell down

On 1 December 2016, non-performing assets with principal amount of RMB 1.09 billion were sold from the Bank to DBS Bank Ltd. DBS Bank Ltd purchased the non-performing assets at the price of RMB 569 million through public auction.

DBS BANK (CHINA) LIMITED

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50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(3) Balances with related parties

(i) Due from other financial institution

| | 31 December 2016 | 31 December 2015 |
|------------------------------|-------------------------|-------------------------|
| DBS Bank Ltd. | 3,993,356,858 | 2,265,279,952 |
| DBS Bank (Hong Kong) Limited | 128,943,594 | 141,790,814 |
| | <u>4,122,300,452</u> | <u>2,407,070,766</u> |

(ii) Interest receivable

| | 31 December 2016 | 31 December 2015 |
|---------------|-------------------------|-------------------------|
| DBS Bank Ltd. | <u>649,859</u> | <u>5,443,139</u> |

(iii) Other receivables

| | 31 December 2016 | 31 December 2015 |
|------------------------------|-------------------------|-------------------------|
| DBS Bank Ltd. | 22,270,008 | 13,634,348 |
| DBS Bank (Tai Wan) Limited | 159,201 | 159,755 |
| DBS Bank (Hong Kong) Limited | 918,311 | 454,264 |
| | <u>23,347,520</u> | <u>14,248,367</u> |

(iv) Deposits / borrowing from other financial institution

| | 31 December 2016 | 31 December 2015 |
|------------------------------|-------------------------|-------------------------|
| DBS Bank Ltd. | 9,577,702,829 | 19,729,590,412 |
| DBS Bank (Hong Kong) Limited | 10,893,372 | 246,169,398 |
| DBS Bank (Tai Wan) Limited | 2,039,466 | 698,366 |
| | <u>9,590,635,667</u> | <u>19,976,458,176</u> |

DBS BANK (CHINA) LIMITED

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50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

- (e) Related party transactions (continued)
- (3) Balances with related parties (continued)
- (v) Due to customers

| | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| DBS Investment and Financial Advisory Company Limited | 7,725,271 | 6,918,675 |
| | <u>7,725,271</u> | <u>6,918,675</u> |

(vi) Interest payable

| | 31 December 2016 | 31 December 2015 |
|------------------------------|-------------------|-------------------|
| DBS Bank Ltd. | 26,617,963 | 10,407,865 |
| DBS Bank (Hong Kong) Limited | 1,696,438 | 8,100,997 |
| | <u>28,314,401</u> | <u>18,508,862</u> |

(vii) Bonds issued

| | 31 December 2016 | 31 December 2015 |
|------------------------------|--------------------|----------------------|
| DBS Bank (Hong Kong) Limited | 960,000,000 | 1,110,078,710 |
| | <u>960,000,000</u> | <u>1,110,078,710</u> |

(viii) Other payables

| | 31 December 2016 | 31 December 2015 |
|------------------------------|--------------------|--------------------|
| DBS Bank Ltd. | 704,467,270 | 621,410,762 |
| DBS Bank (Hong Kong) Limited | 3,766,037 | 3,824,457 |
| | <u>708,233,307</u> | <u>625,235,219</u> |

(ix) Derivative transactions

| | 31 December 2016 | |
|------------------------------|-----------------------|---------------------|
| | Notional amount | Fair value |
| DBS Bank Ltd. | 18,198,853,391 | (32,971,011) |
| DBS Bank (Hong Kong) Limited | 21,554,651,210 | (32,666,653) |
| | <u>39,753,504,601</u> | <u>(65,637,664)</u> |

| | 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> |

DBS BANK (CHINA) LIMITED

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50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(3) Balances with related parties (continued)

(x) Standby letter of credit

| | 31 December 2016 | 31 December 2015 |
|------------------------------|-------------------------|-------------------------|
| DBS Bank Ltd. | 5,779,408,908 | 8,932,379,407 |
| DBS Bank (Hong Kong) Limited | 404,234,765 | 219,377,800 |
| DBS Bank (Tai Wan) Limited | 185,018,000 | 200,218,000 |
| | <u>6,368,661,673</u> | <u>9,351,975,207</u> |

(xi) Letters of gurantee issued

| | 31 December 2016 | 31 December 2015 |
|------------------------------|-------------------------|-------------------------|
| DBS Bank Ltd. | 150,358,795 | 5,225,736 |
| DBS Bank (Hong Kong) Limited | 219,878,816 | 8,023,989 |
| DBS Bank (Tai Wan) Limited | - | 10,598,414 |
| | <u>370,237,611</u> | <u>23,848,139</u> |

(xii) Letters of credit issued

| | 31 December 2016 | 31 December 2015 |
|---------------------------|-------------------------|-------------------------|
| DBS Bank Ltd. | 457,476,107 | 2,004,200,264 |
| BS Bank (Tai Wan) Limited | 18,103,337 | - |
| | <u>475,579,444</u> | <u>2,004,200,264</u> |

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits:

| | 2016 | 2015 |
|----------------------|-------------------|-------------------|
| Salary and welfare | 35,201,316 | 36,513,494 |
| Share incentive plan | 4,195,143 | 3,386,386 |
| | <u>39,396,459</u> | <u>39,899,880</u> |

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51 FINANCIAL RISK MANAGEMENT

51.1 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.

51.2 Credit risk

The most significant measurable risk DBS China faces, Credit risk arises from our daily activities in various areas of business.— These activities include lending to retail, corporate and institutional customers; trading endeavour such as foreign exchange, derivatives and debt securities; and settlement of transactions.

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 following building blocks:

A Policies

The Bank localized Group Core Credit Risk Policy, by taking account of the local laws, regulations. The Core Credit Risk Policy provides the foundation upon which the Bank conducts our 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.

Our operational policies and standards are established to provide greater details about the implementation of credit principles within the Group and localized CCRP, and are adapted to reflect different credit environments and portfolio risk profiles.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

B Risk Methodologies

Credit risk is managed by thoroughly understanding our customers – the businesses they are in, as well as 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.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

B Credit risk measurement (continued)

(iv) Pre-settlement credit risk

Pre-settlement credit risk for derivatives arising from counterparty's potentially defaulting on its obligations is quantified by a mark-to-market, as well as any potential exposure in the future

Issuer default risk may also arise from derivatives and securities are typically measured using 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 from any default. Counterparty risk exposures that may be adversely affected by market risk events are identified, reviewed and acted upon by management, and highlighted to the appropriate risk committees. Specific wrong-way risk arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty positively correlates with the probability of defaulting due to the nature of the transactions

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

In addition, risk reporting on credit trends, which may include industry analysis, early warning alerts and significant weak credits, is submitted to the various credit committees, allowing key strategies and action plans to be formulated and evaluated. Credit control functions also ensure that any credit risks taken comply with group-wide credit policies and guidelines. These functions ensure that approved limits are activated, credit excesses and policy exceptions are appropriately endorsed, compliance with credit standards is carried out, and covenants established by management and regulators are informed.

D Collateral received

Where possible, the Bank takes collateral as a secondary recourse to the borrower. This includes cash, marketable securities, properties, trade receivables, inventory and equipment and other physical and financial collateral. We may also take fixed and floating charges on the assets of borrowers.

Policies have been put in place to determine the eligibility of collateral for credit risk mitigation. These include requiring specific collaterals to meet minimum operational requirements in order to be considered as effective risk mitigants. The Bank's collateral is generally diversified and valued periodically. Properties constitute the bulk of our collateral, while marketable securities and cash are immaterial.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

E Other Risk Mitigants

The Bank uses guarantees as credit risk mitigants. Internal thresholds for considering guarantors to be eligible for credit risk mitigation are in place.

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

| | 31 December 2016 | 31 December 2015 |
|---|-----------------------------|-----------------------------|
| Deposits with other banks | 7,334,247,820 | 6,925,513,605 |
| Placements with financial institutions | 17,041,933,789 | 13,240,691,855 |
| Financial assets at fair value through profit or loss | 6,366,848,443 | 7,618,299,803 |
| Derivative assets | 9,094,258,342 | 4,806,314,003 |
| Financial assets purchased under resale agreements | - | 494,955,518 |
| Interest receivable | 422,618,197 | 593,617,829 |
| Loans and advances | 37,704,672,912 | 43,885,568,262 |
| Investment securities – available-for-sale | 2,150,816,247 | 2,800,599,654 |
| Investment securities – loans and receivables | 121,542,528 | 443,136,830 |
| Other financial assets | 1,391,916,924 | 603,070,012 |
| Sub-total | <u>81,628,855,202</u> | <u>81,411,767,371</u> |
| Letters of credit issued | 3,442,944,799 | 5,906,445,522 |
| Standby letter of credit | 8,287,686,672 | 10,006,994,542 |
| Letters of guarantee issued | 2,230,085,195 | 1,030,442,218 |
| Irrevocable loan commitment | 3,379,431,431 | 2,460,165,488 |
| Bank acceptances | 2,376,076,932 | 1,620,584,959 |
| Letters of credit confirmation | 23,363,087 | 361,048,171 |
| Sub-total | <u>19,739,588,116</u> | <u>21,385,680,900</u> |
| Total | <u>101,368,443,318</u> | <u>102,797,448,271</u> |

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2016, 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, 46% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2015: 54%).

DBS BANK (CHINA) LIMITED

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51 FINANCIAL RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

G Placements with financial institutions

| | 31 December 2016 | 31 December 2015 |
|-------------------------------|-------------------------|-------------------------|
| Neither past due nor impaired | <u>17,041,933,789</u> | <u>13,240,691,855</u> |

H Loans and advances

| | 31 December 2016 | 31 December 2015 |
|---------------------------------------|-------------------------|-------------------------|
| Neither past due nor impaired | 37,848,565,405 | 43,606,489,447 |
| Past due but not impaired | 232,642,712 | 679,775,609 |
| Impaired | <u>313,250,174</u> | <u>771,393,589</u> |
| Total | <u>38,394,458,291</u> | <u>45,057,658,645</u> |
| Less: allowance for impairment losses | <u>(689,785,379)</u> | <u>(1,172,090,383)</u> |
| Net | <u>37,704,672,912</u> | <u>43,885,568,262</u> |

The total allowance for impairment of loans and advances amounted to RMB 690 million (31 December 2015: RMB 1,172 million), of which RMB 90 million (31 December 2015: RMB 139 million) represents the individually assessed impairment allowance and the remaining amount of RMB 600 million (31 December 2015: RMB 1,033 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 2016 | | | |
| Pass | 32,668,670,336 | 5,144,335,557 | 37,813,005,893 |
| Special mention | <u>33,749,946</u> | <u>1,809,566</u> | <u>35,559,512</u> |
| | <u>32,702,420,282</u> | <u>5,146,145,123</u> | <u>37,848,565,405</u> |
| 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> |

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51 FINANCIAL RISK MANAGEMENT (continued)

51.2 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 2016 | | | | | |
| Corporate loans | 62,975,653 | 4,360,834 | 78,423 | - | 67,414,910 |
| Retail loans | 151,757,204 | 7,386,876 | 5,429,928 | 653,794 | 165,227,802 |
| Total | 214,732,857 | 11,747,710 | 5,508,351 | 653,794 | 232,642,712 |
| 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 |

(iii) Loans and advances individually impaired

| | 31 December 2016 | 31 December 2015 |
|-----------------|-------------------------|-------------------------|
| Corporate loans | 252,130,375 | 706,524,762 |
| Retail loans | 61,119,799 | 64,868,827 |
| | 313,250,174 | 771,393,589 |

(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 2016, there is no renegotiated loans held by the Bank. As of 31 December 2015, there was no renegotiated loan held by the Bank.

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51 FINANCIAL RISK MANAGEMENT (continued)**51.2 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 2016 | | | |
| Rated as AAA | 4,214,445,382 | - | 121,542,528 |
| Rated as AA+ | - | - | - |
| Rated as AA | - | - | - |
| Rated as AA- | - | - | - |
| Unrated: | | | |
| PBOC notes | - | - | - |
| Bonds issued by policy banks | 1,937,559,225 | 1,562,005,379 | - |
| Treasury bonds | 185,009,111 | 549,246,720 | - |
| Local Treasury bonds | 29,834,725 | 39,564,148 | - |
| | <u>6,366,848,443</u> | <u>2,150,816,247</u> | <u>121,542,528</u> |

| 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> |

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51 FINANCIAL RISK MANAGEMENT (continued)

51.3 Market risk

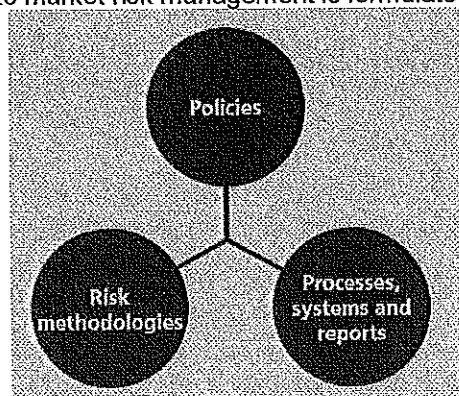
Market Risk is a risk arising from adverse changes in interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, as well as related factors. The Bank's exposure to market risk is categorized into:

- Trading portfolios: Arising from positions taken for (i) market-making, (ii) client-facilitation and (iii) benefiting from market opportunities.
- Banking portfolios: Arising from (i) positions taken to manage the interest rate risk of Institutional Banking and Consumer Banking assets and liabilities; (ii) structural foreign exchange risk arising mainly from the Bank's USD capital; and (iii) 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 Management Policy sets out overall approach towards market risk management, while the Market Risk Management Standard establishes the base requirements for the said management within the Bank. The Market Risk Management Guide complements the Market Risk Management Standard by providing more details regarding specific subject matters. Both the Market Risk Management Standard and Market Risk Management Guide facilitate the identification, measurement, control, monitoring and reporting of market risk in a consistent manner. They also set out the overall approach, standards and controls governing market risk stress testing across the Bank. The criteria for determining the positions to be included in the trading book are stipulated in the Trading Book Policy Statement.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.3 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 market movements over a specified time horizon and according 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), which is the average of potential loss beyond a given level of confidence, to monitor and limit market risk exposures. ES is supplemented by risk control metrics such as sensitivities to risk factors and loss triggers for management action.

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

VaR models allow the Bank to estimate the aggregate portfolio market risk due to a range of market risk factors and instruments. Of course, VaR models have limitations as well. For example, past changes in market risk factors may not provide accurate predictions of future market movements, and the risk arising from adverse market events may be understated.

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

ES is the key risk metric used to manage the Bank's assets and liabilities. As an exception, credit spread risk regarding loans and receivables is managed under the credit risk management framework. The Bank also manages banking book interest rate risk arising from mismatches in the interest rate profiles of assets, liabilities and capital instruments (and associated hedges), which includes 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 have been designed and implemented to support the Bank's market risk management approach. The Bank reviews these control processes regularly, and these reviews allow senior management to assess their effectiveness.

The RMG Market and Liquidity Risk unit – an independent market risk management function reporting to CRO – monitors, controls and analyses the Bank's market risk daily.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.3 Market risk (continued)

B Market Risk in 2016

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 | As at 31 December 2016 | As at 31 December 2016 | | |
|----------------|---------------------------|------------------------|---------|--------|
| | | Average | Highest | Lowest |
| Total | 16.46 | 13.95 | 22.05 | 6.91 |

| RMB in million | As at 31 December 2015 | As at 31 December 2015 | | |
|----------------|---------------------------|------------------------|---------|--------|
| | | Average | Highest | Lowest |
| Total | 11.77 | 19.08 | 32.91 | 8.16 |

The key market risk factors driving Treasury's trading portfolios in 2016 were RMB interest rate, USD/RMB foreign exchange and credit spread.

The estimated MtM PL for RMB interest rate position as at 31 December 2016, assuming a 50 basis point increase in general interest rates was a decrease of RMB 3.3 million.

The estimated MtM PL for foreign exchange position as of 31 December 2016, assuming USD appreciation by 3% against RMB was an increase of RMB 419.75 million.

Banking Portfolio

The period-end, average, high and low ES 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.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.3 Market risk (continued)

B Market Risk in 2016 (continued)

Table 1 Treasury Banking

| RMB in million | As at 31 December 2016 | As at 31 December 2016 | | |
|----------------|---------------------------|------------------------|---------|--------|
| | | Average | Highest | Lowest |
| Total | 4.88 | 4.62 | 6.87 | 2.30 |

| RMB in million | As at 31 December 2015 | As at 31 December 2015 | | |
|----------------|---------------------------|------------------------|---------|--------|
| | | Average | Highest | Lowest |
| Total | 6.52 | 9.98 | 13.69 | 5.98 |

Table 2 Central Operations

| RMB in million | 31 December 2016 | As at 31 December 2016 | | |
|----------------|------------------|------------------------|---------|--------|
| | | Average | Highest | Lowest |
| Total | 16.85 | 17.39 | 22.79 | 11.69 |

| RMB in million | 31 December 2015 | As at 31 December 2015 | | |
|----------------|------------------|------------------------|---------|--------|
| | | Average | Highest | Lowest |
| Total | 14.39 | 34.64 | 45.52 | 11.65 |

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 2016, assuming a 50 basis point increase in general interest rates was an increase of RMB 6.3 million.

The estimated value volatility for foreign exchange position as of 31 December 2016, assuming USD appreciation by 3% against RMB was an increase of RMB 69.93 million.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.4 Liquidity risk

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

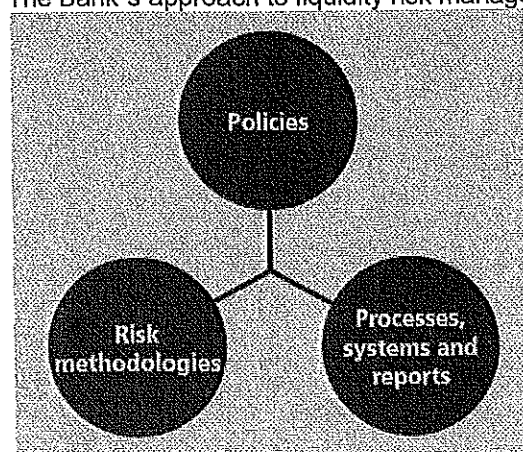
The Bank seeks to manage its liquidity in a manner that ensures that its liquidity obligations will continue to be honoured under normal as well as adverse circumstances.

A Liquidity Risk Management

China MLRC is the primary party responsible for liquidity risk management based on the Liquidity Risk Management 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 employs to manage its liquidity. These strategies include maintaining an adequate counterbalancing capacity to address potential cashflow shortfalls and having diversified sources of liquidity.

The Bank's counterbalancing capacity includes liquid assets and the capacity to borrow from the money markets (including the issuance of commercial paper), and forms of managerial interventions that improve liquidity. In the event of a potential or actual crisis, the Bank has in place a set of liquidity contingency and recovery plans to ensure that the Bank maintains adequate liquidity.

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

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51 FINANCIAL RISK MANAGEMENT (continued)

51.4 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 cash flow maturity mismatch analysis. This form of analysis is performed on a regular basis under normal and adverse scenarios. It assesses the adequacy of the Bank's counterbalancing capacity to fund or mitigate any cash flow shortfalls that may occur as forecasted in the cash flow movements across successive time bands. To ensure that liquidity is managed in line with the 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 will be escalated to the relevant committees for evaluation and action.

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 decrease.

Liquidity risk control measures, such as liquidity-related ratios and balance sheet analysis, are complementary tools for cashflow maturity mismatch analysis, and they 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 regarding top depositors, wholesale borrowing and swapped funds ratios.

Processes, Systems and Reports

Robust internal control processes and systems support the Bank's overall approach in identifying, measuring, aggregating, controlling and monitoring liquidity risk in the Bank. Following enhancements on the in-house data platform made in the past two years, the cash flow maturity mismatch analysis report was generated automatically in July 2016, improving the process of liquidity risk monitoring.

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

B Liquidity Risk in 2016

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

In 2016, the Bank's liquidity was observed to remain adequate in the maturity mismatch.

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51 FINANCIAL RISK MANAGEMENT (continued)

51.4 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 2016 | | 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 | | 1,992,140,224 | 400,931,445 | 5,145,668,076 | 1,299,255,969 | - | 8,837,995,714 |
| Borrowing from other banks | | 5,538,923,267 | 4,460,810,330 | 1,055,745,458 | 627,079,772 | - | 11,682,558,827 |
| Due to customers | | 27,624,023,570 | 6,630,365,781 | 13,609,487,012 | 1,341,985,610 | 67,124,810 | 49,272,986,783 |
| Financial assets sold under repurchase agreements | | 1,971,934,256 | - | - | - | - | 1,971,934,256 |
| Bonds issued | | 2,935,616,577 | 600,000,000 | 86,000,000 | 2,258,000,000 | - | 2,944,000,000 |
| Others | | 40,062,637,894 | - | - | 692,178,561 | - | 3,627,795,138 |
| Total financial liabilities | | 40,062,637,894 | 12,092,107,556 | 19,896,900,546 | 6,218,499,912 | 67,124,810 | 78,337,270,718 |
| Financial Assets | | | | | | | |
| Cash and deposits with the central bank | | 14,558,254,901 | - | - | - | - | 14,558,254,901 |
| Deposits with other banks | | 1,575,456,154 | 4,926,465,278 | 907,896,583 | - | - | 7,409,818,015 |
| Placements with financial institutions | | 5,043,354,092 | 2,340,440,128 | 9,336,393,109 | 603,170,128 | - | 17,323,357,457 |
| Financial assets at fair value through profit or loss | | 555,339,740 | 304,378,539 | 4,600,136,789 | 899,213,000 | 215,650,000 | 6,574,718,068 |
| Loans and advances | | 5,324,668,143 | 7,981,422,118 | 10,175,939,917 | 12,999,256,422 | 7,284,438,929 | 43,765,725,529 |
| Investment securities – available-for-sale | | 476,567,100 | 536,858,000 | 581,817,920 | 501,273,640 | 255,355,000 | 2,351,871,660 |
| Investment securities – loans and receivables | | 354,606 | 118,422 | 123,150,032 | - | - | 123,623,060 |
| Others | | - | - | 265,374,435 | 1,126,542,489 | - | 1,391,916,924 |
| Total financial assets | | 27,533,994,736 | 16,089,682,485 | 25,990,708,785 | 16,129,455,679 | 7,755,443,929 | 93,499,285,614 |
| Net cash flows | | (12,528,643,158) | 3,997,574,929 | 6,093,808,239 | 9,910,955,767 | 7,688,319,119 | 15,162,014,896 |

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51 FINANCIAL RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

A Non-derivative cash flows of financial assets and liabilities

| | Within 1 month | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|-------------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|
| 31 December 2015 | | | | | | |
| 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 | 809,280,030 | - | - | 317,347,730 | - | 1,126,627,760 |
| Total financial liabilities | 38,206,990,511 | 17,964,982,427 | 17,973,041,031 | 7,765,572,990 | - | 82,227,934,689 |
| 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 |
| 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 |
| Investment securities – loans and receivables | 1,288,800 | 680,578 | 59,192,954 | 390,744,343 | - | 451,906,675 |
| Others | - | - | 16,454,181 | 586,615,831 | - | 603,070,012 |
| Total financial assets | 23,451,491,523 | 17,611,221,175 | 28,524,984,340 | 19,650,965,236 | 7,726,393,468 | 96,965,055,742 |
| Net cash flows | (14,755,498,988) | (353,761,252) | 10,551,943,309 | 11,885,392,246 | 7,726,393,468 | 14,737,121,053 |

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51 FINANCIAL RISK MANAGEMENT (continued)

51.4 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 2016 | | | | | | |
| Interest rate derivatives | 12,622,437 | (2,241,531) | (3,023,821) | 12,266,727 | 5,908,319 | 25,532,131 |
| 31 December 2015 | | | | | | |
| Interest rate derivatives | 48,294,004 | 75,533,952 | 109,850,262 | 127,146,448 | 9,083,084 | 369,907,750 |

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51 FINANCIAL RISK MANAGEMENT (continued)

51.4 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 2016 | | | | | | |
| Foreign exchange derivatives | | | | | | |
| – Outflow | 130,580,423,845 | 146,867,381,807 | 214,233,573,945 | 21,500,372,659 | - | 513,181,752,256 |
| – Inflow | <u>130,597,031,024</u> | <u>146,966,448,751</u> | <u>215,108,669,930</u> | <u>21,423,324,021</u> | <u>-</u> | <u>514,095,473,726</u> |
| 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 | <u>85,545,591,224</u> | <u>80,554,467,437</u> | <u>198,253,143,023</u> | <u>23,634,377,618</u> | <u>-</u> | <u>387,987,579,302</u> |

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51 FINANCIAL RISK MANAGEMENT (continued)
51.4 Liquidity risk (continued)
C Off-balance sheet items

| | No later than 1 year | 1-5 years | Over 5 years | Total |
|--------------------------------|-------------------------|----------------------|----------------------|-----------------------|
| 31 December 2016 | | | | |
| Letters of credit issued | 3,442,944,799 | - | - | 3,442,944,799 |
| Letters of guarantee issued | 7,438,376,122 | 849,310,550 | - | 8,287,686,672 |
| Irrevocable loan commitment | 1,912,945,685 | 29,483,501 | 287,656,009 | 2,230,085,195 |
| Bank acceptances | 105,295,427 | 1,983,256,260 | 1,290,879,744 | 3,379,431,431 |
| Standby letter of credit | 2,376,076,932 | - | - | 2,376,076,932 |
| Letters of credit confirmation | 23,363,087 | - | - | 23,363,087 |
| Operating lease commitments | 167,423,808 | 122,669,372 | - | 290,093,180 |
| Total | 15,466,425,860 | 2,984,719,683 | 1,578,535,753 | 20,029,681,296 |
| 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 |

51.5 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.

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51 FINANCIAL RISK MANAGEMENT (continued)
51.5 Fair value hierarchy (continued)
(a) Assets and liabilities continuously measured at fair value
31 December 2016

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|------------------|----------|------------------|
| Financial assets at fair value through profit or loss | | | | |
| - Trading securities | - | 6,366,848,443 | - | 6,366,848,443 |
| - Derivatives assets | - | 9,094,258,342 | 93,865 | 9,094,258,342 |
| - Financial assets purchased under resale agreements | - | - | - | - |
| Available-for-sale investments | - | 2,150,816,247 | - | 2,150,816,247 |
| Total Assets | - | 17,611,829,167 | 93,865 | 17,611,923,032 |
| Financial liabilities at fair value through profit or loss | | | | |
| - Derivative liabilities | - | (8,199,704,929) | (93,865) | (8,199,798,794) |
| - Financial assets sold under repurchase agreements | - | (1,970,930,248) | - | (1,970,930,248) |
| Financial liabilities designated as fair value through profit or loss – SIPs | - | - | - | - |
| Total Liabilities | - | (10,170,635,177) | (93,865) | (10,170,729,042) |

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) |

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51 FINANCIAL RISK MANAGEMENT (continued)

51.5 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.

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51 FINANCIAL RISK MANAGEMENT (continued)**51.6 Capital management**

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

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

| | 31 December 2016 | 31 December 2015 |
|---|------------------|------------------|
| Core Tier 1 capital adequacy ratio | 12.9% | 11.3% |
| Tier 1 capital adequacy ratio | 12.9% | 11.3% |
| Total capital adequacy ratio | 15.9% | 14.4% |
| Core Tier 1 capital | 10,452,644,785 | 8,667,522,139 |
| Regulatory Deductions for Core Tier 1 capital | - | - |
| Net core Tier 1 capital | 10,452,644,785 | 8,667,522,139 |
| Other Tier 1 capital | - | - |
| Net Tier 1 capital | 10,452,644,785 | 8,667,522,139 |
| Tier 2 capital | 2,376,535,200 | 2,385,696,800 |
| Total regulatory capital | 12,829,179,985 | 11,053,218,939 |
| Total risk-weighted assets | 80,927,950,100 | 76,731,167,600 |