DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2017

[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

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FOR THE YEAR ENDED 31 DECEMBER 2017

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普华永道

[English Translation for Reference Only]

Auditor's Report

PwC ZT [2018] Shen Zi (2018) No. 20178

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

Opinion

What we have audited

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

- the balance sheet as at 31 December 2017;
- the income statement for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in owners' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DBS Bank as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

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

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

普华永道中天会计师事务所(特殊普通合伙)
PricewaterhouseCoopers Zhong Tian LLP, 11/F PricewaterhouseCoopers Center
Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
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Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA Patrick Zhou
Shanghai, the People's Republic of China 31 January 2018	Signing CPA Tara Song

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2017
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2017	31 December 2016
Cash and deposits with the central bank	8	13,073,531,814	14,558,254,902
Deposits with other banks	9	10,534,746,393	7,334,247,820
Placements with financial institutions	10	20,298,748,020	17,041,933,789
Financial assets at fair value through profit or loss	11	19,917,284,916	6,366,848,443
Derivative assets	12	8,365,624,289	9,094,258,342
Financial assets purchased under resale agreements	13	50,539,752	-
Interest receivable	14	714,511,277	422,618,197
Loans and advances	15	44,245,741,851	37,704,672,912
Investment securities - available-for-sale	16	2,709,065,463	2,150,816,247
Investment securities - loans and receivables	17	469,217,894	121,542,528
Fixed assets	18	101,678,671	104,718,258
Long-term prepaid expenses	19	11,331,680	14,623,102
Deferred income tax assets	20	481,168,410	362,639,053
Other assets	21	2,979,404,575	1,408,553,793
TOTAL ASSETS		123,952,595,005	96,685,727,386

LIABILITIES	Notes	31 December 2017	31 December 2016
Deposits from other banks and financial institutions	22	5,738,451,959	8,693,428,486
Borrowing from other banks	23	35,580,259,130	11,627,643,459
Derivative liabilities	12	9,534,700,080	8,199,798,794
Financial assets sold under repurchase agreements	24	1,858,576,944	1,970,930,248
Due to customers	25	50,314,967,417	48,785,788,935
Payroll and welfare payable	26	129,091,970	131,272,813
Taxes payable	27	225,895,913	60,154,728
Interest payable	28	404,331,910	381,214,776
Bonds issued	29	3,944,025,723	2,550,010,916
Other liabilities	30	5,692,796,663	3,832,839,446
TOTAL LIABILITIES		113,423,097,709	86,233,082,601
OWNER'S EQUITY			
Paid-in capital	31	8,000,000,000	8,000,000,000
Capital surplus	32	22,571,343	22,571,343
Other comprehensive income	45	(47,997,748)	3,732,990
Surplus reserve	33	255,492,371	242,634,046
General risk reserve	34	996,800,000	990,800,000
Undistributed profits	35	1,302,631,330	1,192,906,406
TOTAL OWNER'S EQUITY		10,529,497,296	10,452,644,785
TOTAL LIABILITIES AND OWNER'S EQUITY		123,952,595,005	96,685,727,386

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

Chairman:	CEO:	CFO:
Dominic Ho	Neil Ge	Janice Chua

DBS BANK (CHINA) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2017	2016
Interest income	36	3,541,131,102	2,840,261,759
Interest expense	36	(1,842,137,779)	(1,516,735,979)
Net interest income		1,698,993,323	1,323,525,780
Fee and commission income	37	298,189,213	357,794,345
Fee and commission expenses	37	(86,503,912)	(69,311,761)
Net fee and commission income		211,685,301	288,482,584
Investment (losses)/gains	38	(5,915,255)	118,667,226
Fair value (losses)/gains	39	(943,122,537)	817,188,884
Net gains/(losses) from foreign exchange and derivative transactions	40	1,144,068,855	(339,911,474)
Other business income		6,956,589	7,823,717
Other income	41	9,160,000	-
Operating income		2,121,826,276	2,215,776,717
Tax and levies		(20,402,690)	(95,635,930)
General and administrative expenses	42	(1,634,172,789)	(1,691,811,195)
Asset impairment losses	43	(289,555,824)	(276,619,548)
Operating expense		(1,944,131,303)	(2,064,066,673)
Operating profit		177,694,973	151,710,044
Non-operating income		6,042,399	12,773,857
Non-operating expenses		(1,984,030)	(3,079,223)
Total profit		181,753,342	161,404,678
Less: Corporate Income tax	44	(53,170,093)	(48,199,089)
Net profit		128,583,249	113,205,589
Net profit from continued operations		128,583,249	113,205,589
Net profit from discontinued operations		-	-
Net Other comprehensive income	45	(51,730,738)	(28,082,969)
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		(53,104,244)	(33,099,074)
-Cash Flow Hedge Reserve		1,373,506	5,016,105
Total comprehensive income		76,852,511	85,122,620

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

Chairman:	CEO:	CFO:
Dominic Ho	Neil Ge	Janice Chua

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

		Notes	2017	2016
1	**Cash flows from operating activities**			
	Net decrease in loans and advances		-	6,143,101,176
	Net increase in borrowing from other banks		23,952,615,671	-
	Net decrease in financial assets at fair value through profit or loss		-	1,335,508,051
	Net decrease in financial assets purchased under resale agreements		-	495,000,000
	Interest received		3,151,363,738	2,927,649,325
	Fee and commission received		511,569,646	455,455,616
	Cash received relating to other operating activities		4,376,341,323	2,476,711,330
	Sub-total of cash inflow		31,991,890,378	13,833,425,498
	Net increase in deposits with the central bank and other banks		(340,016,251)	(4,278,903,703)
	Net decrease in customer deposits and deposits from other banks and financial institutions		(1,425,798,045)	(3,337,588,134)
	Net increase in loans and advances		(6,656,857,664)	-
	Net decrease in borrowing from other banks		-	(34,858,674)
	Net increase in placements with financial institutions		(3,058,438,231)	(3,014,205,121)
	Net increase in financial assets at fair value through profit or loss		(13,592,161,181)	-
	Net decrease in financial assets sold under repurchase agreements		(112,300,000)	(1,548,000,000)
	Net increase in financial assets purchased under resale agreements		(50,549,764)	-
	Interest paid		(1,731,604,203)	(1,847,140,230)
	Fee and commission paid		(86,503,912)	(69,311,761)
	Cash paid to employees		(994,301,097)	(1,040,849,653)
	Payment of taxes		(203,080,255)	(250,738,480)
	Cash paid relating to other operating activities		(2,186,611,268)	(2,190,374,323)
	Sub-total of cash outflow		(30,438,221,871)	(17,611,970,079)
	Net cash provided from/(used in) operating activities	46	1,553,668,507	(3,778,544,581)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

		Notes	2017	2016
2	**Cash flows from investing activities**			
	Cash received from disposal of investment securities - available-for-sale		1,667,664,182	2,979,433,915
	Interest received from investment securities		97,874,284	105,928,648
	Net decrease in investment securities - loans and receivables		-	323,622,500
	Cash received from disposal of fixed assets		-	927,799
	Sub-total of cash inflow		1,765,538,466	3,409,912,862
	Cash paid for purchase of investment securities-loans and receivables		(352,040,000)	-
	Cash paid for purchase of investment securities-available-for-sale		(2,296,719,057)	(2,373,782,607)
	Cash paid for purchase of fixed assets and other long-term assets		(38,524,307)	(38,193,996)
	Sub-total of cash outflow		(2,687,283,364)	(2,411,976,603)
	Net cash (used in)/provided from investing activities		(921,744,898)	997,936,259
3	**Cash flows from financing activities**			
	Capital injection		-	1,700,000,000
	Cash received from bonds issuance		1,395,363,496	599,714,733
	Sub-total of cash inflow		1,395,363,496	2,299,714,733
	Cash payments for bonds redemption		-	(1,500,000,000)
	Cash payments for bonds interest expenses		(87,416,442)	(161,751,982)
	Sub-total of cash outflow		(87,416,442)	(1,661,751,982)
	Net cash flows provided from financing activities		1,307,947,054	637,962,751
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		(365,735,429)	255,157,801
5	**Net increase/(decrease) in cash and cash equivalents**		1,574,135,234	(1,887,487,770)
	Add: Cash and cash equivalents at beginning of year		15,723,934,547	17,611,422,317
6	**Cash and cash equivalents at end of year**	46	17,298,069,781	15,723,934,547

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

Chairman:	CEO:	CFO:
Dominic Ho	Neil Ge	Janice Chua

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profits	Total owners' equity
	Note 31	Note 32	Note 45	Note 33	Note 34	Note 35	
Balance at 1 January 2016	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
Comprehensive income							
Net profit for the year of 2017	-	-	-	-	-	128,583,249	128,583,249
Other comprehensive income	-	-	(51,730,738)	-	-	-	(51,730,738)
Total comprehensive income	-	-	(51,730,738)	-	-	128,583,249	76,852,511
Profit distribution							
Transfer to general risk reserve	-	-	-	-	6,000,000	(6,000,000)	-
Transfer to surplus reserve	-	-	-	12,858,325	-	(12,858,325)	-
Balance at 31 December 2017	8,000,000,000	22,571,343	(47,997,748)	255,492,371	996,800,000	1,302,631,330	10,529,497,296

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Janice Chua

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.

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2017 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 2017 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.

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:

4 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities(continued)

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

- 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.

(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.

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;

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.

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.

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.

Cash flow hedge

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.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

H Derivative financial instruments (continued)

Hedge accounting (continued)

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.

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.

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.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

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.

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.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

N Deferred income taxes

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

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

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

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

O Operating leases

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

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

P Contingent liabilities and acceptances

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

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

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

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.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

Q Financial guarantee contracts(continued)

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 47.

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.

(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.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

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.

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 Tianjin of the PRC.

U Business combinations

(1) Business combinations involving enterprises not under common control.

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(2) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

V Changes in significant accounting policies

The Ministry of Finance issued the revised *CAS No.42 - Non-Current Assets and Disposal Groups Held for Saleand Termination of Business Operation (implement from 28 May 2017)* and *CAS No.16 - Government Grants (implement from 12 June 2017)*.

According to *'the Notice of Revision of Enterprise's General Financial Statement Format' issued in December 2017 (Cai Kuai [2017] 30)*, and *'the Interpretation of Questions about Enterprise's General Financial Statement Format' issued on 12 January 2018*, the Bank shall disclose the account of 'asset disposal income' and the comparative data. Given there is no asset disposal in 2017 or 2016, the change of the revised CAS No.42 is not applied for the Bank in current or comparative period.

Besides, the Bank shall disclose 'other income' to deal with the government grants in 2017, the comparative figures for the year ended 31 December 2016 do not need to be restated. The implementation of this change do not have significant impact on the Bank's financial conditions, operating performance or cash flows.

W Government Grants

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

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

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

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

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

For the policy loans with favourable interest rates, the Bank records the loans at the actual amounts and calculates the interests by loan principals and the favourable interest rates. The interest subsidies directly received from government are recorded as a reduction of interest expenses.

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 experienc.

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 31 January 2018.

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)
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% (2016: 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.

8 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2017	**31 December 2016**
Cash	41,017,149	53,689,121
Statutory deposit reserve with the central bank (a)	6,100,571,439	5,772,082,659
Excess deposit reserve with the central bank	5,583,432,126	5,389,065,606
Foreign exchange risk reserve with central bank (b)	1,348,511,100	3,343,417,516
	13,073,531,814	14,558,254,902

(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 2017(31 December 2016: 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 was15% at 31 December 2017 (31 December 2016: 15%). RMB deposit reserve bears interest at annual rate of 1.62% (2016: 1.62%).

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

(b) Pursuant to the *'Circular on the strengthing 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").

Pursuant to the '*Circular on the Adjustment of Foreign Exchange Risk Reserve Policies'* (Yin Fa [2017] 207), the reserve ratio of the bank's foreign exchange risk should be adjusted to zero from 11 September 2017, related business occurred before 11 September 2017 is treated according to Yin Fa [2015] 273.

(All amounts expressed in RMB unless otherwise stated)

9 DEPOSITS WITH OTHER BANKS

	31 December 2017	**31 December 2016**
Deposits with domestic banks	9,154,699,749	6,345,831,532
Deposits with overseas banks	1,131,566,272	777,095,836
Deposits with overseas related parties (Note 52(e)(3)(i))	248,480,372	211,320,452
	10,534,746,393	7,334,247,820

10 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2017	**31 December 2016**
Placements with domestic banks	842,778,520	243,128,456
Placements with domestic financial institutions	15,939,624,500	12,887,825,333
Placements with overseas related parties (Note 52(e)(3)(i))	3,516,345,000	3,910,980,000
	20,298,748,020	17,041,933,789

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017	**31 December 2016**
Bonds issued by policy banks	2,600,667,129	1,937,559,200
Corporate bonds	2,563,803,266	1,277,746,957
Treasury bonds	296,322,085	185,009,111
Local Treasury bonds	29,395,058	29,834,725
Negotiable certificates of deposit	14,367,157,735	2,936,698,450
Securities Company Short-term Commercial Paper	59,939,643	-
	19,917,284,916	6,366,848,443

As at 31 December 2017, trading assets amounting to RMB 1,830,000,000 were pledged as collateral under repurchase agreements with other banks. As at 31 December 2016, trading assets amounting to RMB 1,510,000,000 were pledged as collateral under repurchase agreements with other banks.

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.

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.1 DERIVATIVE INSTRUMENTS(continued)

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.

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:

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.1 DERIVATIVE INSTRUMENTS(continued)

31 December 2017	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	19,879,825,110	344,966,979	(272,187,202)
Foreign exchange swap	450,583,634,310	5,556,396,744	(6,742,653,246)
Foreign exchange option	88,547,411,166	599,185,552	(685,575,581)
Cross-currency swap	6,770,890,802	180,690,642	(135,654,162)
	565,781,761,388	6,681,239,917	(7,836,070,191)
Interest rate derivatives			
Interest rate swap	1,001,839,084,216	1,565,430,670	(1,580,913,607)
Interest rate cap and floor	11,523,709,180	2,469,127	(2,259,888)
	1,013,362,793,396	1,567,899,797	(1,583,173,495)
Equity derivatives	8,087,725,882	116,484,575	(115,456,394)
Total	1,587,232,280,666	8,365,624,289	(9,534,700,080)

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)
	523,529,547,426	7,093,471,056	(6,174,202,942)
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)
	710,786,748,522	1,888,236,769	(1,913,095,982)
Equity derivatives	2,120,996,143	27,522,034	(27,471,387)
Commodity derivatives	226,624,159	84,777,714	(84,777,714)
Credit derivatives	55,496,000	250,769	(250,769)
Total	1,236,719,412,250	9,094,258,342	(8,199,798,794)

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

12.2 HEDGE ACCOUNTING

(a) Fair value hedge

As at 31 December 2017, derivative contracts designated as hedging instruments by the Bank are as follows:

		Fair Value	
	notional amount	Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	1,000,000,000	-	(44,619,187)

As at 31 December 2016, derivative contracts designated as hedging instruments by the Bank are as follows:

		Fair Value	
	notional amount	Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	1,000,000,000	-	(43,176,713)

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.

Net loss on fair value hedges are as follows:

	2017	**2016**
—hedging instruments	(44,619,187)	(43,176,713)
—hedged items: bonds issued	43,942,499	42,593,810
Net loss on fair value hedges	(676,688)	(582,903)

(All amounts expressed in RMB unless otherwise stated)

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 2017, the Bank's net gain from the cash flow hedge of RMB 6.39 million (for the year ended 31 December 2016: 5.02 million) 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 2017. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2017, as a result of the highly probable cash flows no longer being expected to occur.

13 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December 2017	31 December 2016
Financial assets purchased under resale agreements designated at fair value through profit or loss, at fair value	50,539,752	-

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 2017	31 December 2016
Loans and advances	275,492,004	201,105,772
Deposits and placements with financial institutions	268,078,550	89,180,543
Financial assets at fair value through profit or loss	96,822,904	65,224,709
Investment securities - available-for-sale	70,053,918	63,713,609
Deposits with the central bank	3,674,175	3,324,931
Investment securities - loans and receivables	379,347	68,633
Financial assets purchased under resale agreements	10,379	-
	714,511,277	422,618,197

	31 December 2016	Increase in current year	Decrease in current year	31 December 2017
Interest receivable	422,618,197	3,541,131,102	(3,249,238,022)	714,511,277

(All amounts expressed in RMB unless otherwise stated)

15 LOANS AND ADVANCES

	31 December 2017	**31 December 2016**
Retail loans		
-Mortgage loans	6,308,893,353	4,447,186,346
-Others	754,071,903	925,306,377
	7,062,965,256	5,372,492,723
Corporate loans and advances		
-Loans	26,395,535,779	23,885,004,021
-Trade finance	10,838,225,288	8,762,446,360
-Discounted bills and others	761,272,583	374,515,187
	37,995,033,650	33,021,965,568
Total loans	45,057,998,906	38,394,458,291
Individual impairment allowance	(185,678,864)	(90,027,099)
Collective impairment allowance	(626,578,191)	(599,758,280)
Total impairment allowance	(812,257,055)	(689,785,379)
Loans and advances, net	44,245,741,851	37,704,672,912

(1) Industry sector:

	31 December 2017		**31 December 2016**	
	Balance	**%**	**Balance**	**%**
Retail loans	7,062,965,256	17%	5,372,492,723	14%
Manufacturing	10,758,853,291	24%	12,493,596,739	33%
Wholesale and retail business	9,447,268,394	21%	8,437,967,731	22%
Real estate	7,430,208,604	16%	7,226,859,466	19%
Leasing and commercial services	4,355,556,313	10%	1,535,115,748	4%
Transportation, storage and postal	1,793,629,130	4%	928,752,890	2%
Information and technology	1,539,409,713	3%	726,378,234	2%
Finance	829,616,479	2%	150,000,000	0%
Electricity, Gas and Water	488,693,690	1%	180,930,093	0%
Agriculture, Hunting, Forestry and Fishing	423,171,125	1%	463,694,593	1%
Construction	397,495,192	1%	235,067,655	1%
Hotel and restaurant	155,276,970	0%	149,387,875	0%
Technical services	145,644,554	0%	200,000,000	1%
Mining industry	70,000,000	0%	185,874,808	0%
Others	160,210,195	0%	108,339,736	1%
Total gross	45,057,998,906	100%	38,394,458,291	100%

(All amounts expressed in RMB unless otherwise stated)

15 LOANS AND ADVANCES (continued)

(2) Geographic sector:

	31 December 2017	31 December 2016
Shanghai	28,187,701,051	21,254,137,173
Beijing	4,766,274,664	4,445,769,609
Shenzhen	3,027,597,121	4,901,269,000
Guangzhou	2,321,229,987	1,942,638,333
Xi’an	1,494,250,000	1,504,500,000
Chongqing	1,225,783,291	1,568,290,926
Suzhou	1,046,293,229	643,603,589
Hangzhou	1,031,643,076	466,124,973
Nanning	831,160,171	780,892,094
Tianjin	672,771,005	394,617,791
Others	453,295,311	492,614,803
Total gross	45,057,998,906	38,394,458,291

(3) By type of collateral and guarantee:

	31 December 2017	31 December 2016
Clean loans	9,720,881,923	8,840,470,411
With guarantee only	10,673,385,723	7,429,658,252
With collateral only	14,643,232,101	11,001,467,569
With both collateral and guarantee	10,020,499,159	11,122,862,059
Total gross	45,057,998,906	38,394,458,291

(4) Loans and advances past due:

	31 December 2017				
	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	-	-	-	-	-
With guarantee only	50,000,000	-	5,215,009	739,066	55,954,075
With collateral only	391,202,842	23,993,499	29,627,369	6,238,202	451,061,912
With both collateral and guarantee	14,662,212	91,883,511	69,227,914	7,107,333	182,880,970
Total gross	455,865,054	115,877,010	104,070,292	14,084,601	689,896,957

	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

(All amounts expressed in RMB unless otherwise stated)

15 LOANS AND ADVANCES (continued)

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

	2017		
	Individually assessed	Collectively assessed	Total
At 1 January	90,027,099	599,758,280	689,785,379
Impairment losses for loans and advances (Note 43)	107,907,570	21,447,285	129,354,855
Transfer in	-	5,372,626	5,372,626
Current Year Write-off	(12,134,001)	-	(12,134,001)
Exchange difference	(121,804)	-	(121,804)
At 31 December	185,678,864	626,578,191	812,257,055

	2016		
	Individually assessed	Collectively assessed	Total
At 1 January	138,965,870	1,033,124,513	1,172,090,383
Impairment losses for loans and advances (Note 43)	511,058,200	(433,366,233)	77,691,967
Transfer out provision for non performing loan sell down(Note 43)	(525,261,083)	-	(525,261,083)
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

(All amounts expressed in RMB unless otherwise stated)

16 INVESTMENT SECURITIES - AVAILABLE-FOR-SALE

	31 December 2017	31 December 2016
At fair value		
Treasury bonds	1,047,753,154	549,246,720
Local Treasury bonds	38,890,459	39,564,148
Bonds issued by policy banks	1,622,421,850	1,562,005,379
	2,709,065,463	2,150,816,247

As at 31 Dec 2017, the notional amount of available for sale financial assets pledged is RMB 350,000,000.The notional amount of available for sale financial assets pledged is RMB 590,000,000as at 31 Dec 2016.

17 INVESTMENT SECURITIES – LOANS AND RECEIVABLES

	31 December 2017	31 December 2016
Assets backed securities	474,840,000	122,800,000
Impairment allowance-collectively assessed	(5,622,106)	(1,257,472)
	469,217,894	121,542,528

18 FIXED ASSETS

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 2017	102,922,152	232,259,571	335,181,723
Add: Addition and transfer-in	5,509,161	29,894,271	35,403,432
Less: Disposal/write-off	(9,144,507)	(2,394,560)	(11,539,067)
At 31 December 2017	99,286,806	259,759,282	359,046,088
Accumulated depreciation			
At 1 January 2017	75,999,637	154,463,828	230,463,465
Add: Charge for the year	8,313,736	29,051,630	37,365,366
Less: Disposal/write-off	(8,161,158)	(2,300,256)	(10,461,414)
At 31 December 2017	76,152,215	181,215,202	257,367,417
Net book value			
At 31 December 2017	23,134,591	78,544,080	101,678,671

(All amounts expressed in RMB unless otherwise stated)

18 FIXED ASSETS(continued)

	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: Addition and transfer-in	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	102,922,152	232,259,571	335,181,723
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	75,999,637	154,463,828	230,463,465
Net book value			
At 31 December 2016	26,922,515	77,795,743	104,718,258

19 LONG-TERM PREPAID EXPENSES

	Leasehold improvement	Others	Total
As at 1 January 2017	14,311,267	311,835	14,623,102
Additions	3,748,716	-	3,748,716
Transfer-out	(627,841)	-	(627,841)
Amortization	(6,383,513)	(28,784)	(6,412,297)
As at 31 December 2017	11,048,629	283,051	11,331,680
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

(All amounts expressed in RMB unless otherwise stated)

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 2016: 25%).

The movements of deferred taxation are shown as below:

	2017	**2016**
At beginning of year	362,639,053	406,120,475
Income statement credit (Note 44)	101,285,777	(52,842,412)
Available-for-sale securities		
-Fair value measurement(Note 45)	17,701,416	11,033,025
Cash flow hedge reserve(Note 45)	(457,836)	(1,672,035)
At end of year	481,168,410	362,639,053

(1) Deferred tax assets

	31 December 2017		**31 December 2016**	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for loan impairment	213,801,260	855,205,037	229,184,215	916,736,859
Provision for other impairment	128,735,647	514,942,587	217,790,267	871,161,066
Fair value measurement of available-for-sale securities	18,129,120	72,516,480	427,705	1,710,821
Share based incentive plan payment not exercised	12,660,669	50,642,677	12,030,527	48,122,108
Accrued expenses	109,248,079	436,992,317	89,146,229	356,584,917
Losses for disposal of fixed assets	555,426	2,221,705	491,525	1,966,101
Total losses carry forward	-	-	51,616,789	206,467,156
	483,130,201	1,932,520,803	600,687,257	2,402,749,028

The estimated amount to be recovered comprised:

	31 December 2017		**31 December 2016**	
Within 1 year (including 1 year)	109,248,079	436,992,317	89,146,229	356,584,917
After 1 year	373,882,122	1,495,528,486	511,541,028	2,046,164,111
	483,130,201	1,932,520,803	600,687,257	2,402,749,028

(All amounts expressed in RMB unless otherwise stated)

20 DEFERRED INCOME TAX ASSETS(continued)

(2) Deferred tax liabilities

	31 December 2017		31 December 2016	
	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	(1,961,791)	(7,847,164)	(238,048,204)	(952,192,814)

The estimated amount to be recovered comprised:

Within 1 year (including 1 year)	(1,961,791)	(7,847,164)	(238,048,204)	(952,192,814)
	(1,961,791)	(7,847,164)	(238,048,204)	(952,192,814)

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

	31 December 2017	31 December 2016
Deferred tax assets, net	481,168,410	362,639,053

21 OTHER ASSETS

	31 December 2017	31 December 2016
Security Deposits & Guarantee fund	2,584,440,317	888,682,495
Receivables from related parties (Note 52(e)(3)(iii))	28,534,316	23,347,520
Settlement receivables from customers	174,344,072	369,538,075
Provision for settlement receivables from customers	(84,119,467)	(131,678,081)
Net settlement receivables from customers	90,224,605	237,859,994
Prepaid expenses	13,690,248	16,636,869
Others	262,515,089	242,026,915
	2,979,404,575	1,408,553,793

	2017	2016
	Provision for settlement receivables from customers	Provision for settlement receivables from customers
At 1 January	131,678,081	35,115,254
Impairment losses	(6,940,321)	146,215,549
Transfer in provision for non performing loan sell down	-	525,261,083
Write-off	(40,529,025)	(574,736,560)
Foreign Exchange difference	(89,268)	(177,245)
At 31 December	84,119,467	131,678,081

(All amounts expressed in RMB unless otherwise stated)

22 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
Deposits from domestic financial instituitions	771,465,177	2,043,592,801
Deposits from overseas financial instituitions	3,961,693,027	4,163,759,477
Deposits from overseas related parties (Note 52(e)(3)(iv))	1,005,293,755	2,486,076,208
	5,738,451,959	8,693,428,486

23 BORROWING FROM OTHER BANKS

	31 December 2017	31 December 2016
Placements from domestic banks	7,974,295,625	4,523,084,000
Placements from overseas related parties (Note 52(e)(3)(iv))	27,605,963,505	7,104,559,459
	35,580,259,130	11,627,643,459

24 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2017	31 December 2016
Financial assets sold under repurchase agreements designated at fair value through profit or loss, at fair value	1,858,576,944	1,970,930,248

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 2017	31 December 2016
At amortized cost		
Corporate current deposits	13,398,719,655	9,873,757,996
Corporate time deposits	22,409,021,506	24,945,998,223
Retail current deposits	3,073,513,714	2,003,237,095
Retail time deposits	4,869,130,569	4,459,550,725
SIPs sold to corporate customers	6,002,836,973	6,469,089,676
SIPs sold to retail customers	561,745,000	1,034,155,220
	50,314,967,417	48,785,788,935

(All amounts expressed in RMB unless otherwise stated)

26 PAYROLL AND WELFARE PAYABLE

	31 December 2017	31 December 2016
Short-term employee benefits	122,961,701	125,681,450
Defined contribution plans	6,130,269	5,591,363
	129,091,970	131,272,813

	31 December 2016	Additions	Deductions	31 December 2017
Short-term employee benefits	125,681,450	856,685,641	(859,405,390)	122,961,701
Defined contribution plans	5,591,363	135,434,613	(134,895,707)	6,130,269
	131,272,813	992,120,254	(994,301,097)	129,091,970

27 TAXES PAYABLE

	31 December 2017	31 December 2016
Corporate income tax payable	142,364,960	-
Value added tax and surcharges payable	41,187,520	29,261,523
Withholding corporate tax	16,761,397	6,457,468
Withholding individual income tax and others	25,582,036	24,435,737
	225,895,913	60,154,728

28 INTEREST PAYABLE

	31 December 2017	31 December 2016
Due to customers	356,711,388	338,755,233
Bonds issued	3,534,247	3,534,247
Deposits / borrowing from other banks and financial institutions	43,216,879	38,430,435
Financial assets sold under repurchase agreements	869,396	494,861
	404,331,910	381,214,776

	31 December 2016	Increase in current year	Decrease in current year	31 December 2017
Interest payable	381,214,776	1,842,137,779	(1,819,020,645)	404,331,910

(All amounts expressed in RMB unless otherwise stated)

29 BONDS ISSUED

	31 December 2017	31 December 2016
Negotiable Certificate of Deposit	1,992,099,511	598,152,456
RMB bond	1,951,926,212	1,951,858,460
	3,944,025,723	2,550,010,916

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 24 October 2017, the Bank issued a Negotiable Certificate of Deposit with notional amount of RMB 1,000 million in the PRC inter-bank market. The bond bears interest at annual rate of 4.3085% and its maturity date is 25 January 2018.

On 10 November 2017, the Bank issued a Negotiable Certificate of Deposit with notional amount of RMB 1,000 million in the PRC inter-bank market. The bond bears interest at annual rate of 4.3898% and its maturity date is 13 February 2018.

30 OTHER LIABLITIES

	31 December 2017	31 December 2016
Accrued expenses	213,957,191	170,902,908
Payable to overseas related parties (Note 52(e)(3)(viii))	269,054,046	708,233,307
Settlements payable	980,448,224	402,326,661
Unearned commission income	47,544,317	26,330,454
Provision for loss in respect of off-balance sheet credit exposures	265,972,429	94,638,023
Non-principal protected SIPs – retail customers	3,895,471,667	597,540,538
MTM Margin from Shanghai Clearing House	-	1,666,744,806
Others	20,348,789	166,122,749
	5,692,796,663	3,832,839,446

31 PAID-IN CAPITAL

	31 December 2017	31 December 2016
Registered and fully paid by DBS Bank	8,000,000,000	8,000,000,000

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 2017, the paid-in capital of the Bank is equivalent RMB 8.00 billion.

(All amounts expressed in RMB unless otherwise stated)

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 2017	**31 December 2016**
Transfer of capital surplus recognised under the previous accounting system	22,571,343	22,571,343

33 SURPLUS RESERVE

Reserve Fund	**31 December 2017**	**31 December 2016**
At beginning of year	242,634,046	231,313,487
Current year addition	12,858,325	11,320,559
At end of year	255,492,371	242,634,046

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.

34 GENERAL RISK RESERVE

	31 December 2017	**31 December 2016**
At beginning of year	990,800,000	945,200,000
Current year addition	6,000,000	45,600,000
At end of year	996,800,000	990,800,000

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 7 February 2017, the directors approved the appropriation to the Bank's general risk reserve amounting to RMB 6 million in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 996.8 million.

(All amounts expressed in RMB unless otherwise stated)

35 UNDISTRIBUTED PROFITS

On 31 January 2018, the directors approved the appropriation to the Bank’s general risk reserve amounting of RMB 238.1 million, in accordance with Circular Caijin No.20 issued in 2012.

36 NET INTEREST INCOME

	2017	2016
Interest income:		
Loans and advances	1,937,689,430	1,822,730,073
Financial assets at fair value through profit or loss	490,653,887	177,281,180
Due from other banks and financial institutions	891,789,124	649,633,745
Deposits with the central bank	116,342,713	101,612,310
Investment securities – available- for-sale	85,013,729	74,136,108
Investment securities - loans and receivables	12,860,555	9,475,958
Financial assets purchased under resale agreements	6,781,664	3,774,113
Others	-	1,618,272
	3,541,131,102	2,840,261,759
Interest expense:		
Due to other banks and financial institutions	(649,382,096)	(312,074,914)
Due to customers	(1,050,765,365)	(1,062,234,247)
Bonds issued	(87,416,442)	(93,158,214)
Financial assets sold under repurchase agreements	(54,573,876)	(49,268,604)
	(1,842,137,779)	(1,516,735,979)
Net interest income	1,698,993,323	1,323,525,780

	2017	2016
Comprising		
Interest income for financial assets at fair value through profit or loss	497,435,551	181,055,293
Interest income for financial assets not at fair value through profit or loss	3,043,695,551	2,659,206,466
Interest expense for financial liabilities at fair value through profit or loss	(54,573,876)	(49,268,604)
Interest expense for financial liabilities not at fair value through profit or loss	(1,787,563,903)	(1,467,467,375)
	1,698,993,323	1,323,525,780

(All amounts expressed in RMB unless otherwise stated)

37 NET FEE AND COMMISSION INCOME

	2017	2016
Fee and commission income		
Loan and trade related fee	121,400,048	178,548,131
Wealth management fee	73,624,297	62,847,442
Treasury advisory fee	47,679,661	46,361,702
Syndication fee	20,954,865	39,299,035
Cash Management fee	16,114,789	13,464,095
Others	18,415,553	17,273,940
	298,189,213	357,794,345
Fee and commission expense		
Settlement and clearing fees, brokerage expenses	(86,503,912)	(69,311,761)
Net fee and commission income	211,685,301	288,482,584

38 INVESTMENT GAINS

	2017	2016
Financial assets at fair value through profit or loss	(5,915,255)	96,350,644
Investment securities –available-for-sale	-	22,316,582
	(5,915,255)	118,667,226

39 FAIR VALUE GAINS

	2017	2016
Net unrealized gains on financial assets purchased under resale and sold under repurchase agreements	43,292	74,403
Net unrealized gains on financial assets at fair value through profit or loss	(34,460,765)	33,015,060
Net unrealized losses/ gains on derivative instruments	(908,705,064)	784,099,421
	(943,122,537)	817,188,884

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

	2017	2016
Net gains/(losses) from foreign exchange and derivatives transactions	1,144,068,855	(339,911,474)

(All amounts expressed in RMB unless otherwise stated)

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

For the year ended 31 December 2017, the Bank's net gains/(losses) from foreign exchange and derivative transactions are disclosed separately in the Income Statement. The amount include remittence income from foreign exchange related businesses, the realized profits/(losses) and unrealized profits/(losses) from fair value changes of foreign exchange derivative financial instruments, and exchange profits/(losses) from translation of foreign currency monetary assets and liabilities.

41 OTHER INCOME

	2017	2016
Financial talents award	7,160,000	-
New regional financial institution subsidies	2,000,000	-
	9,160,000	-

According to ‘the Notice of Revision of Enterprise's General Financial Statement Format’ issued in December 2017 (Cai Kuai [2017] 30), and 'the Interpretation of Questions about Enterprise's General Financial Statement Format' issued on 12 January 2018, the comparative financial statements for the year ended 31 December 2016 do not need to be restated.

42 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and bonus	799,962,738	827,751,956
Social insurance and other welfare benefits	192,157,516	202,181,462
Share-based compensation plan	25,581,869	26,323,884
Telecommunications and computers	227,155,831	218,027,584
Rental and utilities	164,892,757	182,683,810
Depreciation and amortization	43,777,663	47,011,353
Travelling expenses	23,144,669	20,853,096
Business entertainment expenses	12,140,129	11,810,703
Staff training expenses	1,188,474	4,455,062
Others	144,171,143	150,712,285
	1,634,172,789	1,691,811,195

43 ASSET IMPAIRMENT LOSSES

	2017	2016
Impairment losses on loans and advances (Note 15(5))	129,354,855	(447,569,116)
Impairment losses on contingent liabilities	176,342,786	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	(13,566,130)	(39,897,793)
Impairment losses on other assets(Note 21)	(6,940,321)	146,215,549
Impairment losses on investment securities -loans and receivables	4,364,634	(2,028,198)
	289,555,824	276,619,548

(All amounts expressed in RMB unless otherwise stated)

44 INCOME TAX

	2017	**2016**
Current income tax	154,455,870	(4,643,323)
Deferred income tax (Note 20)	(101,285,777)	52,842,412
	53,170,093	48,199,089

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

	2017	**2016**
Profit before income tax	181,753,342	161,404,678
Income tax calculated at 25% (2016: 25%)	45,438,336	40,351,170
Annual tax filing differences	(9,317)	(739,715)
Non-taxable income	(10,257,679)	(3,104,808)
Non-deductible expenses	18,497,838	11,890,217
Others	(499,085)	(197,775)
	53,170,093	48,199,089

45 OTHER COMPREHENSIVE INCOME

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

		2017	
	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	(70,805,659)	17,701,415	(53,104,244)
Cash flow hedge reserve	99,851,833	(24,962,958)	74,888,875
Less: Reclassification of other comprehensive income to profit or loss	(98,020,492)	24,505,123	(73,515,369)
Total other comprehensive income	(68,974,318)	17,243,580	(51,730,738)

(All amounts expressed in RMB unless otherwise stated)

45 OTHER COMPREHENSIVE INCOME(continued)

		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)
Cash flow hedge reserve	6,688,140	(1,672,035)	5,016,105
Less: Reclassification of other comprehensive income to profit or loss	999,504	(249,876)	749,628
Total other comprehensive income	(37,443,959)	9,360,990	(28,082,969)

(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 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
Movements for the year ended 31 December 2017	(53,104,244)	1,373,506	(51,730,738)
31 December 2017	(54,387,359)	6,389,611	(47,997,748)

46 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2017	**31 December 2016**
Cash (Note 8)	41,017,149	53,689,121
Balances with the PBOC other than restricted reserve deposits (Note 8)	5,583,432,126	5,389,065,606
Deposits with other banks with original terms less than three months from acquisition date	6,338,312,506	5,144,247,820
Placements with financial institutions with original terms less than three months from acquisition date	5,335,308,000	5,136,932,000
	17,298,069,781	15,723,934,547

(All amounts expressed in RMB unless otherwise stated)

46 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(2) Cash flows from operating activities

	Notes	2017	2016
Net profit		128,583,249	113,205,589
Adjusted by:			
Impairment charge for asset losses	43	303,121,954	316,517,341
Depreciation and amortization	42	43,777,663	47,011,353
Interest income for investment securities – available-for-sale and Investment securities - loans and receivables	36	(97,874,284)	(83,612,066)
Gains for investment securities – available-for-sale	38	-	(22,316,582)
Losses on retirement of fixed assets		1,077,653	1,321,654
Interest expenses of bonds issued		87,416,442	93,158,214
Loss /(gain) from fair value change	39	943,122,537	(817,188,884)
(Increase)/Decrease in deferred income tax assets	44	(101,285,777)	52,842,412
(Increase)/Decrease in operating receivables		(25,561,477,509)	(218,597,889)
Increase/(Decrease) in operating payables		25,807,206,579	(3,260,885,723)
Net cash provided /(used) from operating activities		1,553,668,507	(3,778,544,581)

(3) Net increase in cash and cash equivalents:

	2017	2016
Cash and cash equivalents at end of year	17,298,069,781	15,723,934,547
Less: cash and cash equivalents at beginning of year	(15,723,934,547)	(17,611,422,317)
Net increase /(decrease) in cash and cash equivalents	1,574,135,234	(1,887,487,770)

47 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Off-balance sheet items

	31 December 2017	31 December 2016
Letters of credit issued	3,327,277,162	3,442,944,799
Standby letter of credit	4,365,485,792	8,287,686,672
Letters of guarantee issued	924,197,154	2,230,085,195
Irrevocable loan commitment	1,801,408,829	3,379,431,431
Bank acceptances	2,381,848,691	2,376,076,932
Letters of credit confirmation	30,316,263	23,363,087
	12,830,533,891	19,739,588,116

(All amounts expressed in RMB unless otherwise stated)

47 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(2) Operating lease commitments

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

	31 December 2017	**31 December 2016**
Within 1 year	156,983,519	167,423,808
Over 1 year less than 2 years	117,002,863	80,380,097
Over 2 year less than 3 years	75,064,465	39,076,686
Over 3 years	8,307,165	3,212,589
	357,358,012	290,093,180

(3) Legal proceedings

At 31 December 2017, there was no significant legal proceeding against the Bank (31 December 2016: nil).

(4) Capital commitments

As at 31 December 2017, the Bank has no significant capital commitments which require separate disclosure (31 December 2016: nil).

48 SUBSEQUENT EVENTS

On 31 January 2018, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 238.1 million, in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 1,234.9 million.

The Ministry of Finance revised and issued *CAS 22 (Recognition and Measurement of Financial Instruments), CAS 23 (Financial Instruments Transfer), CAS 24 (Hedge Accounting) and CAS 37 (Presentation of Financial Instruments*), requiring non-listed companies to apply new CAS from 1 January 2021, and early implementation is encouraged. The Bank has decided to early adoption of the above accounting standards from 1 January 2018.

According to the new financial instruments guidelines, companies do not have to revise the previous comparable figures but the opening balance of retained earnings or other comprehensive income need retrospective adjustment. Therefore, from 2018, the Bank will disclose the accounting statements according to the new CAS. The Bank does not need to restate the comparable figures for 2017 but only need to adjust the retained earnings and other comprehensive income of the beginning balance of 2018.

(All amounts expressed in RMB unless otherwise stated)

49 SEGMENT INFORMATION

RMB('thousand) 31 December 2017	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Chongqing	Tianjin	Nanning	Others	Elimination	Total
Interest income	243,474	3,217,483	568,462	608,715	224,015	81,868	71,294	34,739	41,459	231,136	(1,781,514)	3,541,131
Interest expense	(143,820)	(2,306,996)	(278,190)	(479,093)	(163,529)	(42,661)	(27,442)	(23,148)	(18,313)	(140,460)	1,781,514	(1,842,138)
Net interest income	99,654	910,487	290,272	129,622	60,486	39,207	43,852	11,591	23,146	90,676	-	1,698,993
Fee and commission income	-	135,061	77,436	14,944	39,293	3,563	10,396	2,453	60	14,983	-	298,189
Fee and commission expenses	(3)	(85,551)	(322)	(426)	(124)	(8)	(1)	(24)	(2)	(43)	-	(86,504)
Net fee and commission income	(3)	49,510	77,114	14,518	39,169	3,555	10,395	2,429	58	14,940	-	211,685
Other operating income	(87,945)	242,149	42,114	493	(12,699)	9,820	7,229	1,765	(68)	8,290	-	211,148
Operating expenses	(156,585)	(903,760)	(262,688)	(132,480)	(84,315)	(18,669)	(19,747)	(289,937)	(7,311)	(68,639)	-	(1,944,131)
Non-operating income/(losses)	4,395	(314)	(81)	1,014	(127)	(399)	69	(215)	-	(282)	-	4,060
Total profit/(loss) before tax	(140,484)	298,072	146,731	13,167	2,514	33,514	41,798	(274,367)	15,825	44,985	-	181,755
Loans and advances, net	-	27,690,303	4,716,491	2,981,115	2,303,140	1,032,837	1,214,890	551,138	820,378	2,935,450	-	44,245,742
Total assets	6,789,730	97,902,473	13,670,285	7,801,057	3,049,787	2,326,863	1,512,399	822,091	824,997	4,845,885	(15,592,972)	123,952,595
Due to customers	-	(27,085,519)	(9,787,255)	(4,883,414)	(2,295,743)	(1,935,398)	(684,717)	(334,441)	(366,376)	(2,942,104)	-	(50,314,967)
Total liabilities	(2,450,184)	(95,276,555)	(12,638,852)	(6,838,733)	(2,586,336)	(2,000,406)	(1,179,906)	(1,032,812)	(719,155)	(4,293,131)	15,592,972	(113,423,098)
Impairment (reversals)/ charge for credit losses	-	(39,787)	30,077	(1,126)	14,678	3,604	(4,403)	270,047	1,416	15,050	-	289,556
Depreciation and amortization	529	32,824	5,596	422	1,392	114	105	519	443	1,834	-	43,778
Capital expenditure	-	32,320	4,316	210	362	224	-	1,646	-	74	-	39,152

(All amounts expressed in RMB unless otherwise stated)

49 SEGMENT INFORMATION(continued)

RMB('thousand) 31 December 2016	Headoffice	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Chongqing	Tianjin	Nanning	Others	Elimination	Total
Interes tincome	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 operating 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

(All amounts expressed in RMB unless otherwise stated)

49 SEGMENT INFORMATION(continued)

Geographical Information

The Bank's revenue from external customers is mainly from mainland China for 2017 and 2016. As at 31 December 2017 and 2016, all non-current assets of the Bank are located in mainland China.

50 Business combinations

(1) Business combination involving enterprise not under common control

On 15 July 2017, the Bank acquired the retail banking business of Australian and New Zealand Bank (China) Company Limited in China for RMB 1,421 million, the fair value of the acquired business. This is part of DBS Bank Ltd's agreed acquisition of the wealth management and retail banking businesses of ANZ in Singapore, Hong Kong, China, Taiwan and Indonesia. The acquisition of the businesses in each jurisdiction is independent from each other. As at 31 December 2017, the Bank completed this acquisition.

The assets and liabilities of ANZ China at the acquisition date relating to the acquisition are as follows:

	Fair value Acquisition date	Carrying amount Acquisition date
Assets		
Loans and advances, net	2,770,774,459	2,770,774,459
Accrued Interest and other fees/accrued receivables	8,659,148	8,659,148
Total Assets	2,779,433,607	2,779,433,607
Liabilities		
Customer Deposits	(1,351,249,311)	(1,351,249,311)
Accrued Interest and other accrued payables	(4,937,900)	(4,937,900)
Other liabilities	(1,747,107)	(1,747,107)
Total Liabilities	(1,357,934,318)	(1,357,934,318)
NET FINANCIAL ASSETS	**1,421,499,289**	**1,421,499,289**

Details of net assets obtained and goodwill recognised are as follows:

Cash paid	1,420,825,477
Less: Fair value of the identifiable net assets obtained	(1,421,499,289)
Less: Interest expense relating to this acquisition	(509,679)
Less: Foreign exchange	1,183,491
Total	-

(All amounts expressed in RMB unless otherwise stated)

51 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.
- Vested and unvested shares are subject to clawback/malus. Conditions that trigger such clawback/malus are in the Corporate Governance section of the Group Annual Report.
- Shares are awarded to non-executive directors as part of director's remuneration. Details of these awards are disclosed in the Corporate Governance section of the Group Annual Report.

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. For such cases, vested and unvested shares are subject to clawback/malus. Conditions that trigger such clawback/malus are in the Corporate Governance section of the Group Annual Report.

	2017		2016	
Number of shares	Share Plan	ESP	Share Plan	ESP
Balance at 1 January	432,738	195,686	747,628	173,822
Granted	188,838	75,500	204,899	101,900
Transfer	386,430	(98)	(400,390)	(510)
Vested	(212,305)	(50,815)	(91,311)	(47,036)
Forfeited	(27,348)	(30,411)	(28,088)	(32,490)
Balance at 31 December	768,353	189,862	432,738	195,686
Weighted average fair value of the shares granted during the year	SGD 18.58	SGD 18.58	SGD 13.69	SGD13.69

(All amounts expressed in RMB unless otherwise stated)

52 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties who control the Bank or are controlled by the Bank

Name of entity	Registered location	Main business	Relations with the bank	Registered capital	Chairman of the Board
DBS Bank Ltd.	Singapore	Banking and financial service	Parent company	SGD 24,452 million	Peter Seah Lim Huat

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

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

Name of entity	31 December 2016	Change	31 December 2017
DBS Bank Ltd.	SGD 24,146 Million	SGD 306 Million	SGD 24,452 Million

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

Name of entity	31 December 2016		Change		31 December 2017	
	Amount	%	Amount	%	Amount	%
DBS Bank Ltd.	RMB 8.0 Billion	100	-	-	RMB 8.0 Billion	100

(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%.

(All amounts expressed in RMB unless otherwise stated)

52 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(2) Significant related party transactions

(i) Interest income

	2017	2016
DBS Bank Ltd.	21,980,495	20,698,146
DBS Bank (Hong Kong) Limited	514,613	-
	22,495,108	20,698,146

(ii) Interest expense

	2017	2016
DBS Bank Ltd.	272,963,065	225,509,882
DBS Bank (Hong Kong) Limited	41,287,378	41,284,635
	314,250,443	266,794,517

(iii) Net gains/(losses) from foreign exchange and derivative transactions

	2017	2016
DBS Bank Ltd.	670,601,990	(113,480,460)
DBS Bank (Hong Kong) Limited	(589,009)	-
	670,012,981	(113,480,460)

(iv) Fair value gains/losses

	2017	2016
DBS Bank Ltd.	(50,438,310)	208,361,064
DBS Bank (Hong Kong) Limited	-	-
	(50,438,310)	208,361,064

(v) Service charge income

	2017	2016
DBS Bank Ltd.	13,762,058	4,690,074
DBS Bank (Hong Kong) Limited	1,785,414	1,850,306
	15,547,472	6,540,380

(vi) Service charge expense

	2017	2016
DBS Bank Ltd.	96,350,698	91,875,547
DBS Bank (Hong Kong) Limited	6,082,753	9,239,720
	102,433,451	101,115,267

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

(All amounts expressed in RMB unless otherwise stated)

52 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(3) Balances with related parties

(i) Due from other financial institution

	31 December 2017	**31 December 2016**
DBS Bank Ltd.	3,581,872,569	3,993,356,858
DBS Bank (Hong Kong) Limited	182,952,803	128,943,594
	3,764,825,372	4,122,300,452

(ii) Interest receivable

	31 December 2017	**31 December 2016**
DBS Bank Ltd.	954,957	649,859

(iii) Other receivables

	31 December 2017	**31 December 2016**
DBS Bank Ltd.	27,078,077	22,270,008
DBS Bank (Tai Wan) Limited	154,895	159,201
DBS Bank (Hong Kong) Limited	1,301,344	918,311
	28,534,316	23,347,520

(iv) Deposits / borrowing from other financial institution

	31 December 2017	**31 December 2016**
DBS Bank Ltd.	28,522,762,477	9,577,702,829
DBS Bank (Hong Kong) Limited	87,022,001	10,893,372
DBS Vickers (Hong Kong) Limited	77,790	-
DBS Bank (Tai Wan) Limited	1,394,992	2,039,466
	28,611,257,260	9,590,635,667

(All amounts expressed in RMB unless otherwise stated)

52 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(3) Balances with related parties (continued)

(v) Due to customers

	31 December 2017	**31 December 2016**
DBS Investment and Financial Advisory Company Limited	7,514,445	7,725,271

(vi) Interest payable

	31 December 2017	**31 December 2016**
DBS Bank Ltd.	132,227,351	26,617,963
DBS Bank (Hong Kong) Limited	3,534,247	3,534,247
	135,761,598	30,152,210

(vii) Bonds issued

	31 December 2017	**31 December 2016**
DBS Bank (Hong Kong) Limited	960,000,000	960,000,000

(viii) Other payables

	31 December 2017	**31 December 2016**
DBS Bank Ltd.	263,181,665	704,467,270
DBS Bank (Hong Kong) Limited	5,872,381	3,766,037
	269,054,046	708,233,307

(ix) Derivative transactions

	31 December 2017	
	Notional amount	**Fair value**
DBS Bank Ltd.	49,101,692,453	(49,917,048)
DBS Bank (Hong Kong) Limited	65,342,000	(586,418)
	49,167,034,453	(50,503,466)

	31 December 2016	
	Notional amount	**Fair value**
DBS Bank Ltd.	39,753,504,601	(65,637,664)
DBS Bank (Hong Kong) Limited	-	-
	39,753,504,601	(65,637,664)

(All amounts expressed in RMB unless otherwise stated)

52 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(3) Balances with related parties (continued)

(x) Standby letter of credit

	31 December 2017	31 December 2016
DBS Bank Ltd.	4,084,844,990	5,779,408,908
DBS Bank (Hong Kong) Limited	156,106,574	404,234,765
DBS Bank (Tai Wan) Limited	1,106,998	185,018,000
	4,242,058,562	6,368,661,673

(xi) Letters of gurantee issued

	31 December 2017	31 December 2016
DBS Bank Ltd.	29,035,232	150,358,795
DBS Bank (Hong Kong) Limited	-	219,878,816
	29,035,232	370,237,611

(xii) Letters of credit issued

	31 December 2017	31 December 2016
DBS Bank Ltd.	111,639,455	457,476,107
DBS Bank (Hong Kong) Limited	103,678,642	-
DBS Bank (Tai Wan) Limited	-	18,103,337
	215,318,097	475,579,444

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits is comprised of:

	2017	2016
Salary and welfare	34,660,996	35,201,316
Share incentive plan	2,780,147	4,195,143
	37,441,143	39,396,459

53 FINANCIAL RISK MANAGEMENT

53.1 Risk governance

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

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

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

1. Risk Executive Committee (Risk ExCo);
2. China Credit Risk Committee (CCRC);
3. China Market and Liquidity Risk Committee (CMLRC); and
4. China Operational Risk Committee (CORC).

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

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

Key responsibilities:

- Assess and approve risk-taking activities;
- Oversee the Bank's risk management infrastructure, which includes frameworks, decision criteria, authorities, people, policies, standards, processes, information and systems;
- Approve risk policies;
- Assess and monitor specific credit concentration; and
- Recommend scenarios and the resulting macroeconomic variable projections used for enterprise-wide stress tests.

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

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

Working closely with the risk and business committees, the CRO is responsible for the following:

- Management of the Bank's risks, including systems and processes to identify, approve, measure, monitor, control and report risks;
- Engagement with senior management about material matters regarding all risk types;

53 FINANCIAL RISK MANAGEMENT (continued)

53.1 Risk governance(continued)

- Development of risk controls and mitigation processes; and
- Ensuring the Bank's risk management is effective and the Risk Appetite established by the Board is adhered to.

53.2 Credit risk

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

Credit Risk Management

The Bank's approach to credit risk management comprises the 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 and standards, ensures consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across the Bank.

The 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.

B Risk Methodologies

Credit risk is managed by thoroughly understanding the Bank's customers – the businesses they are in, as well as the economies in which they operate.

(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.

53 FINANCIAL RISK MANAGEMENT (continued)

53.2 Credit risk (continued)

B Credit risk measurement (continued)

(i) Loans and advances and off balance sheet exposure(continued)

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.

(iv) Pre-settlement credit risk

Pre-settlement credit risk for traded products arising from a counterparty's potentially defaulting on its obligations is quantified by evaluation of the market price, plus potential future exposure.

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

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

53 FINANCIAL RISK MANAGEMENT (continued)

53.2 Credit risk (continued)

C Process, System and Reports

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

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

In addition, risk reporting on credit trends, which may include industry analysis, early warning alerts and significant weak credits, is submitted to the various credit committees, allowing key strategies and action plans to be formulated and evaluated. Credit control functions also ensure that any credit risks taken complies with 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, but not limited to cash, marketable securities, real estate, 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 periodic valuations of collateral are required. Real Estate constitute the bulk of our collateral, while marketable securities and cash are immaterial.

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

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

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.2 Credit risk (continued)

D Collateral received (continued)

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

`E Other Risk Mitigants

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

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

	31 December 2017	31 December 2016
Deposits with other banks	10,534,746,393	7,334,247,820
Placements with financialinstitutions	20,298,748,020	17,041,933,789
Financial assets at fair value through profit or loss	19,917,284,916	6,366,848,443
Derivative assets	8,365,624,289	9,094,258,342
Financial assets purchased under resale agreements	50,539,752	-
Interest receivable	714,511,277	422,618,197
Loans and advances	44,245,741,851	37,704,672,912
Investment securities – available-for-sale	2,709,065,463	2,150,816,247
Investment securities – loans and receivables	469,217,894	121,542,528
Other financial assets	2,965,714,327	1,391,916,924
Sub-total	110,271,194,182	81,628,855,202
Letters of credit issued	3,327,277,162	3,442,944,799
Standby letter of credit	4,365,485,792	8,287,686,672
Letters of guarantee issued	924,197,154	2,230,085,195
Irrevocable loan commitment	1,801,408,829	3,379,431,431
Bank acceptances	2,381,848,691	2,376,076,932
Letters of credit confirmation	30,316,263	23,363,087
Sub-total	12,830,533,891	19,739,588,116
Total	123,101,728,073	101,368,443,318

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2017, 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, 40%of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2016: 46%).

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.2 Credit risk (continued)

G Placements with financial institutions

	31 December 2017	31 December 2016
Neither past due nor impaired	20,298,748,020	17,041,933,789

H Loans and advances

	31 December 2017	31 December 2016
Neither past due nor impaired	44,227,585,942	37,848,565,405
Past due but not impaired	452,162,040	232,642,712
Impaired	378,250,924	313,250,174
Total	45,057,998,906	38,394,458,291
Less:allowance for impairment losses	(812,257,055)	(689,785,379)
Net	44,245,741,851	37,704,672,912

The total allowance for impairment of loans and advances amounted to RMB 812 million (31 December 2016: RMB 690million), of which RMB 186 million (31 December 2016: RMB 90 million) represents the individually assessed impairment allowance and the remaining amount of RMB 626 million (31 December 2016: RMB 600million) 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 2017			
Pass	37,608,124,483	6,593,757,008	44,201,881,491
Special mention	8,465,158	17,239,293	25,704,451
	37,616,589,641	6,610,996,301	44,227,585,942
31 December 2016			
Pass	32,668,670,336	5,144,335,557	37,813,005,893
Special mention	33,749,946	1,809,566	35,559,512
	32,702,420,282	5,146,145,123	37,848,565,405

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.2 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 2017					
Corporate loans	60,108,430	2,302,893	1,096,709	-	63,508,032
Retail loans	366,608,009	6,085,186	15,960,813	-	388,654,008
Total	426,716,439	8,388,079	17,057,522	-	452,162,040
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

(iii) Loans and advances individually impaired

	31 December 2017	31 December 2016
Corporate loans	314,935,976	252,130,375
Retail loans	63,314,948	61,119,799
	378,250,924	313,250,174

(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 2017, the renegotiated loans held by the Bank is RMB 136 million. As of 31 December 2016, there was no renegotiated loan held by the Bank.

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.2 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 2017			
Rated as AAA	15,636,394,072	-	469,217,894
Rated as AA+	1,284,631,569	-	-
Rated as AA	69,875,003	-	-
Unrated:			
PBOC notes	-	-	-
Bonds issued by policy banks	2,600,667,129	1,622,421,850	-
Treasury bonds	296,322,085	1,047,753,154	-
Local Treasury bonds	29,395,058	38,890,459	-
	19,917,284,916	2,709,065,463	469,217,894

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	-	-	-
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	-
	6,366,848,443	2,150,816,247	121,542,528

53 FINANCIAL RISK MANAGEMENT (continued)

53.3 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 the 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.

53 FINANCIAL RISK MANAGEMENT (continued)

53.3 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. The Bank adopts the standardised approach to compute market risk regulatory capital for the trading book positions. As such, VaR back-testing does not impact the Bank's regulatory capital for market risk.

VaR models allow the Bank to estimate the aggregate portfolio market risk potential loss due to a range of market risk factors and instruments. However, there are limitations to VaR models. For example, past changes in market risk factors may not provide accurate predictions of future market movements, and the risk arising from adverse market events may be understated.

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

ES and Net Interest Income (NII) Variability are the key risk metrics used to manage the Bank's assets and liabilities. As an exception, credit spread risk arising from 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.

53 FINANCIAL RISK MANAGEMENT (continued)

53.3 Market risk (continued)

B Market Risk in 2017

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 2017	2017 Average	2017 Highest	2017 Lowest
Total	9.90	9.37	17.89	5.06

RMB in million	As at 31 December 2016	2016 Average	2016 Highest	2016 Lowest
Total	16.46	13.95	22.05	6.91

The key market risk factors driving Treasury's trading portfolios in 2017 were RMB interest rate, USD/RMB foreign exchange and credit spread.

The estimated MtM PL for RMB interest rate position as at 31 December 2017, assuming a 50 basis point increase in general interest rates was a decrease of RMB 39.41million.

The estimated MtM PL for foreign exchange position as of 31 December 2017, assuming USD appreciation by 3% and USD/RMB FX volatility increase by 40% was an increase of RMB 29.92million.

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.

53 FINANCIAL RISK MANAGEMENT (continued)

53.3 Market risk (continued)

B Market Risk in 2017 (continued)

Table 1 Treasury Banking

RMB in million	As at 31 December 2017	2017 Average	2017 Highest	2017 Lowest
Total	15.08	9.74	15.57	3.88

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

Table 2 Central Operations

RMB in million	As at 31 December 2017	2017 Average	2017 Highest	2017 Lowest
Total	23.05	17.87	23.05	12.37

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

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 2017, assuming a 50 basis point increase in general interest rates was an increase of RMB 24.29million.

The estimated value volatility for foreign exchange position as of 31 December 2017, assuming USD appreciation by 3% against RMB was an increase of RMB 53.66million.

53 FINANCIAL RISK MANAGEMENT (continued)

53.4 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 Policy approved by China BRMC, and reports to China Risk Exco.

The Bank's Assets and Liabilities Committee regularly reviews balance sheet composition, growth in loans and deposits, 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, the capacity to borrow from the money markets (including the issuance of Negotiable Certificate of Deposit (NCD)), 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.

53 FINANCIAL RISK MANAGEMENT (continued)

53.4 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 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 such as the types of scenarios, the survival period and the minimum level of liquid assets, are pre-specified for monitoring and control on a bank-wide basis. Any occurrences of forecasted shortfalls that cannot be covered by the counterbalancing capacity will be escalated to the relevant committees for evaluation and action.

Liquidity risk stress testing is performed regularly using 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. In addition, ad hoc stress tests are performed as part of the Bank's ICAAP exercises.

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

Processes, Systems and Reports

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

The RMG Market and Liquidity Risk unit – 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 2017

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.

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.4 Liquidity risk (continued)

A Non-derivative cash flows of financial assets and liabilities

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

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2017						
Financial Liabilities						
Deposits from other banks and financial institutions	1,441,789,029	1,048,369,103	3,325,956,537	-	-	5,816,114,669
Borrowing from other banks	11,218,514,672	6,265,720,323	18,468,065,057	-	-	35,952,300,052
Due to customers	35,375,810,956	7,214,956,846	7,324,432,090	700,748,717	21,312,270	50,637,260,879
Bonds issued	1,000,000,000	1,000,000,000	86,000,000	344,000,000	2,258,000,000	4,688,000,000
Financial assets sold under repurchase agreements	2,059,934,659	-	-	-	-	2,059,934,659
Others	1,297,046,588	-	-	4,161,444,096	-	5,458,490,684
Total financial liabilities	52,393,095,904	15,529,046,272	29,204,453,684	5,206,192,813	2,279,312,270	104,612,100,943
Financial Assets						
Cash and deposits with the central bank	13,073,531,814	-	-	-	-	13,073,531,814
Deposits with other banks	6,017,185,907	1,567,905,417	3,086,606,486	-	-	10,671,697,810
Placements with financial institutions	6,020,010,173	2,728,572,101	10,053,996,994	1,948,471,353	-	20,751,050,621
Financial assets at fair value through profit or loss	4,542,183,439	4,994,641,014	9,501,515,850	1,120,724,000	406,420,000	20,565,484,303
Loans and advances	6,450,813,225	8,669,421,868	12,715,007,652	14,706,292,833	9,632,744,494	52,174,280,072
Investment securities – available-for-sale	159,339,000	426,457,000	1,021,145,910	576,381,910	1,019,184,000	3,202,507,820
Investment securities – loans and receivables	1,959,958	3,083,504	292,766,299	196,841,824	-	494,651,585
Others	2,584,440,317	-	291,049,405	90,224,605	-	2,965,714,327
Total financial assets	38,849,463,833	18,390,080,904	36,962,088,596	18,638,936,525	11,058,348,494	123,898,918,352
Net cash flows	(13,543,632,071)	2,861,034,632	7,757,634,912	13,432,743,712	8,779,036,224	19,286,817,409

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.4 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 2016						
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	-	600,000,000	86,000,000	2,258,000,000	-	2,944,000,000
Others	2,935,616,577	-	-	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	888,682,495	-	265,374,435	237,859,994	-	1,391,916,924
Total financial assets	28,422,677,231	16,089,682,485	25,990,708,785	15,240,773,184	7,755,443,929	93,499,285,614
Net cash flows	(11,639,960,663)	3,997,574,929	6,093,808,239	9,022,273,272	7,688,319,119	15,162,014,896

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.4 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 2017						
Interest rate derivatives	(7,722,484)	(32,086,884)	(9,655,759)	16,963,428	4,456,961	(28,044,738)
31 December 2016						
Interest rate derivatives	12,622,437	(2,241,531)	(3,023,821)	12,266,727	5,908,319	25,532,131

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.4 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 5years	Total
As at 31 December 2017						
Foreign exchange derivatives						
− Outflow	191,912,193,814	117,990,533,148	241,982,761,096	12,176,135,514	-	564,061,623,572
− Inflow	191,634,394,761	118,135,827,680	240,751,080,199	12,254,532,353	-	562,775,834,993
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	130,597,031,024	146,966,448,751	215,108,669,930	21,423,324,021	-	514,095,473,726

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.4 Liquidity risk (continued)

C Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
31 December 2017				
Letters of credit issued	3,327,277,162	-	-	3,327,277,162
Letters of guarantee issued	242,695,703	134,206,248	547,295,203	924,197,154
Irrevocable loan commitment	193,651,353	1,607,757,476	-	1,801,408,829
Bank acceptances	2,381,848,691	-	-	2,381,848,691
Standby letter of credit	3,325,945,659	1,039,540,133	-	4,365,485,792
Letters of credit confirmation	30,316,263	-	-	30,316,263
Operating lease commitments	156,983,519	200,318,257	56,236	357,358,012
Total	9,658,718,350	2,981,822,114	547,351,439	13,187,891,903
31 December 2016				
Letters of credit issued	3,442,944,799	-	-	3,442,944,799
Letters of guarantee issued	1,912,945,685	29,483,501	287,656,009	2,230,085,195
Irrevocable loan commitment	105,295,427	1,983,256,260	1,290,879,743	3,379,431,430
Bank acceptances	2,376,076,932	-	-	2,376,076,932
Standby letter of credit	7,438,376,122	849,310,550	-	8,287,686,672
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

53.5 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.

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value

31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading securities	-	19,917,284,916	-	19,917,284,916
- Derivatives assets	-	8,365,624,289	-	8,365,624,289
- Financial assets purchased under resale agreements	-	50,539,752	-	50,539,752
Available -for-sale investments	-	2,709,065,463	-	2,709,065,463
Total Assets	-	31,042,514,420	-	31,042,514,420
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(9,534,700,080)	-	(9,534,700,080)
- Financial assets sold under repurchase agreements	-	(1,858,576,944)	-	(1,858,576,944)
Total Liabilities	-	(11,393,277,024)	-	(11,393,277,024)

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	9,094,352,207
- Financial assets purchased under resale agreements	-	-	-	-
Available–for-sale investments	-	2,150,816,247	-	2,150,816,247
Total Assets	-	17,611,923,032	93,865	17,612,016,897
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(8,199,798,794)	(93,865)	(8,199,892,659)
- Financial assets sold under repurchase agreements	-	(1,970,930,248)	-	(1,970,930,248)
Total Liabilities	-	(10,170,729,042)	(93,865)	(10,170,822,907)

53 FINANCIAL RISK MANAGEMENT (continued)

53.5 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 tares 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.

(All amounts expressed in RMB unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (continued)

53.6 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 2017	31 December 2016
Core Tier 1 capital adequacy ratio	12.8%	12.9%
Tier 1 capital adequacy ratio	12.8%	12.9%
Total capital adequacy ratio	15.7%	15.9%
Core Tier 1 capital	10,529,497,296	10,452,644,785
Regulatory Deductions for Core Tier 1 capital	-	-
Net core Tier 1 capital	10,529,497,296	10,452,644,785
Other Tier 1 capital	-	-
Net Tier 1 capital	10,529,497,296	10,452,644,785
Tier 2 capital	2,434,006,200	2,376,535,200
Total regulatory capital	12,963,503,496	12,829,179,985
Total risk-weighted assets	82,355,829,000	80,927,950,100