

DBS BANK (CHINA) LIMITED

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

DBS BANK (CHINA) LIMITED

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Content	Page
REPORT OF THE AUDITORS	1-3
BALANCE SHEET	4
INCOME STATEMENT	5
CASH FLOW STATEMENT	6-7
STATEMENT OF CHANGES IN OWNER'S EQUITY	8
NOTES TO THE FINANCIAL STATEMENTS	9-98

[English Translation for Reference Only]

Auditor's Report

PwC ZT [2019] Shen Zi (2019) No. 22451
(Page 1 of 3)

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

Opinion

What we have audited

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

- the balance sheet as at 31 December 2018;
- 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 2018, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing these financial statements, management is responsible for assessing DBS Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either 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 Michael Hu

Shanghai, the People's Republic of China
14 February 2019

Signing CPA Jessy Tong

DBS BANK (CHINA) LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2018**

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

ASSETS	Notes	31 December 2018	31 December 2017
Cash and deposits with the central bank	9	13,453,814,228	13,073,531,814
Deposits with other banks	10	6,780,363,046	10,534,746,393
Placements with financial institutions	11	25,827,256,895	20,298,748,020
Derivative assets	14	12,784,311,778	8,365,624,289
Financial assets purchased under resale agreements	15	-	50,539,752
Interest receivable	16	N/A	714,511,277
Loans and advances	17	44,050,252,052	44,245,741,851
Financial investments - trading assets	12	14,887,478,610	N/A
Financial investments - debt instruments	20	157,077,499	N/A
Financial investments - other debt instruments	18	6,888,684,172	N/A
Financial assets at fair value through profit or loss	13	N/A	19,917,284,916
Investment securities - loans and receivables	21	N/A	469,217,894
Investment securities - available-for-sale	19	N/A	2,709,065,463
Fixed assets	22	80,685,613	101,678,671
Long-term prepaid expenses	23	5,685,656	11,331,680
Deferred income tax assets	24	534,141,741	481,168,410
Other assets	25	1,651,679,578	2,979,404,575
TOTAL ASSETS		<u>127,101,430,868</u>	<u>123,952,595,005</u>
LIABILITIES			
	Notes	31 December 2018	31 December 2017
Deposits from other banks and financial institutions	26	2,345,836,040	5,738,451,959
Borrowing from other banks	27	20,531,762,234	35,580,259,130
Derivative liabilities	14	11,948,654,700	9,534,700,080
Financial assets sold under repurchase agreements	28	3,627,249,015	1,858,576,944
Due to customers	29	60,993,525,647	50,314,967,417
Payroll and welfare payable	30	133,370,440	129,091,970
Taxes payable	31	114,707,238	225,895,913
Interest payable	32	N/A	404,331,910
Bonds issued	33	7,642,480,438	3,944,025,723
Provision	34	36,912,834	N/A
Other liabilities	35	8,614,120,198	5,692,796,663
TOTAL LIABILITIES		<u>115,988,618,784</u>	<u>113,423,097,709</u>
OWNER'S EQUITY			
Paid-in capital	36	8,000,000,000	8,000,000,000
Capital surplus	37	27,262,927	22,571,343
Other comprehensive income	51	23,919,406	(47,997,748)
Surplus reserve	38	335,374,312	255,492,371
General risk reserve	39	1,234,900,000	996,800,000
Undistributed profits	40	1,491,355,439	1,302,631,330
TOTAL OWNER'S EQUITY		<u>11,112,812,084</u>	<u>10,529,497,296</u>
TOTAL LIABILITIES AND OWNER'S EQUITY		<u>127,101,430,868</u>	<u>123,952,595,005</u>

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Janice Chua

DBS BANK (CHINA) LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

	Notes	2018	2017
Interest income	41	3,887,032,429	3,050,477,215
Interest expense	41	(2,474,255,440)	(1,842,137,779)
Net interest income		<u>1,412,776,989</u>	<u>1,208,339,436</u>
Fee and commission income	42	288,080,963	298,189,213
Fee and commission expenses	42	(76,314,022)	(86,503,912)
Net fee and commission income		<u>211,766,941</u>	<u>211,685,301</u>
Investment income	43	1,036,269,885	785,486,155
Fair value gains/(losses)	44	(91,911,510)	(943,122,537)
Exchange gains	45	237,387,940	843,321,332
Other business income		7,467,963	6,956,589
Other income	46	7,990,063	9,160,000
Operating income		<u>2,821,748,271</u>	<u>2,121,826,276</u>
Tax and levies		(22,975,398)	(20,402,690)
General and administrative expenses	47	(1,624,968,263)	(1,634,172,789)
Credit impairment losses	48	(124,746,445)	N/A
Asset impairment losses	49	N/A	(289,555,824)
Operating expense		<u>(1,772,690,106)</u>	<u>(1,944,131,303)</u>
Operating profit		<u>1,049,058,165</u>	<u>177,694,973</u>
Non-operating income		5,324,664	6,042,399
Non-operating expenses		(1,085,061)	(1,984,030)
Total profit		<u>1,053,297,768</u>	<u>181,753,342</u>
Less: Corporate Income tax	50	(254,478,362)	(53,170,093)
Net profit		<u>798,819,406</u>	<u>128,583,249</u>
Other comprehensive income	51	71,340,560	(51,730,738)
Other comprehensive income which will be reclassified to profit or loss subsequently			
-Gains or losses arising from changes in fair value of other debt instruments		81,106,365	N/A
-Gains or losses arising from changes in fair value of available-for-sale financial assets		N/A	(53,104,244)
-Credit impairment losses of other debt instruments		(12,780)	N/A
-Cash flow hedge reserve		(9,753,025)	1,373,506
Total comprehensive income		<u><u>870,159,966</u></u>	<u><u>76,852,511</u></u>

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Janice Chua

DBS BANK (CHINA) LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

	Notes	2018	2017
1 Cash flows from operating activities			
Net decrease in deposits with the central bank and other banks		3,574,499,955	-
Net increase in borrowing from other banks		-	23,952,615,671
Net decrease in trading assets		6,125,004,695	N/A
Net decrease in financial assets purchased under resale agreements		52,006,011	-
Net increase in customer deposits and deposits from other banks and financial institutions		6,966,518,145	-
Net increase in financial assets sold under repurchase agreements		1,765,300,000	-
Interest received		3,474,271,498	3,151,363,738
Fee and commission received		496,722,446	511,569,646
Cash received relating to other operating activities		2,487,315,225	4,376,341,323
Sub-total of cash inflow		<u>24,941,637,975</u>	<u>31,991,890,378</u>
Net increase in deposits with the central bank and other banks		-	(340,016,251)
Net decrease in customer deposits and deposits from other banks and financial institutions		-	(1,425,798,045)
Net increase in loans and advances		(333,291,040)	(6,656,857,664)
Net decrease in borrowing from other banks		(15,188,866,398)	-
Net increase in placements with financial institutions		(2,392,721,247)	(3,058,438,231)
Net increase in financial assets at fair value through profit or loss		N/A	(13,592,161,181)
Net decrease in financial assets sold under repurchase agreements		-	(112,300,000)
Net increase in financial assets purchased under resale agreements		-	(50,549,764)
Interest paid		(2,261,521,655)	(1,731,604,203)
Fee and commission paid		(76,314,022)	(86,503,912)
Cash paid to employees		(1,032,530,820)	(994,301,097)
Payment of taxes		(562,319,205)	(203,080,255)
Cash paid relating to other operating activities		(538,101,393)	(2,186,611,268)
Sub-total of cash outflow		<u>(22,385,665,780)</u>	<u>(30,438,221,871)</u>
Net cash provided from operating activities	52	<u>2,555,972,195</u>	<u>1,553,668,507</u>

DBS BANK (CHINA) LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

	Notes	2018	2017
2 Cash flows from investing activities			
Cash received from disposal of debt instruments		315,989,999	N/A
Cash received from disposal of other debt instruments		4,107,324,210	N/A
Cash received from disposal of available-for-sale Interest received from debt instruments and other debt instruments		N/A	1,667,664,182
		181,810,948	97,874,284
Sub-total of cash inflow		<u>4,605,125,157</u>	<u>1,765,538,466</u>
Cash paid for purchase of investment securities-loans and receivables		N/A	(352,040,000)
Cash paid for purchase of other debt instruments		(8,031,266,924)	N/A
Cash paid for purchase of available-for-sale Cash paid for purchase of fixed assets and other long-term assets		N/A	(2,296,719,057)
		(26,210,654)	(38,524,307)
Sub-total of cash outflow		<u>(8,057,477,578)</u>	<u>(2,687,283,364)</u>
Net cash used in investing activities		<u>(3,452,352,421)</u>	<u>(921,744,898)</u>
3 Cash flows from financing activities			
Cash received from bonds issuance		3,589,545,379	1,395,363,496
Sub-total of cash inflow		<u>3,589,545,379</u>	<u>1,395,363,496</u>
Cash payments for bonds interest expenses		(88,429,358)	(87,416,442)
Sub-total of cash outflow		<u>(88,429,358)</u>	<u>(87,416,442)</u>
Net cash flows provided from financing activities		<u>3,501,116,021</u>	<u>1,307,947,054</u>
4 Effect of foreign exchange rate changes on cash and cash equivalents		<u>380,116,621</u>	<u>(365,735,429)</u>
5 Net increase in cash and cash equivalents		2,984,852,416	1,574,135,234
Add: Cash and cash equivalents at beginning of year		17,298,069,781	15,723,934,547
6 Cash and cash equivalents at end of year	52	<u><u>20,282,922,197</u></u>	<u><u>17,298,069,781</u></u>

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Janice Chua

DBS BANK (CHINA) LIMITED

**STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

(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 36	Note 37	Note 51	Note 38	Note 39	Note 40	
Balance at 1 January 2017	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 appropriation							
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
Impact of adopting new CASs of financial instruments (see Note 4)	-	-	576,594	-	-	(292,113,356)	(291,536,762)
Restated Balance at 1 January 2018	8,000,000,000	22,571,343	(47,421,154)	255,492,371	996,800,000	1,010,517,974	10,237,960,534
Comprehensive income							
Net profit for the year of 2018	-	-	-	-	-	798,819,406	798,819,406
Other comprehensive income	-	-	71,340,560	-	-	-	71,340,560
Total comprehensive income	-	-	71,340,560	-	-	798,819,406	870,159,966
Tax credits from employee share-based compensation plans	-	4,691,584	-	-	-	-	4,691,584
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	238,100,000	(238,100,000)	-
Transfer to surplus reserve	-	-	-	79,881,941	-	(79,881,941)	-
Balance at 31 December 2018	8,000,000,000	27,262,927	23,919,406	335,374,312	1,234,900,000	1,491,355,439	11,112,812,084

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Janice Chua

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

1 GENERAL INFORMATION

DBS Bank (China) Limited (the “Bank”) was established as a wholly-owned subsidiary of DBS Bank Ltd. (“DBS Bank”) in Shanghai, China.

Prior to the establishment of the Bank and the transfer of business (the “conversion”), DBS Bank had three branches (Shanghai, Beijing and Guangzhou) and DBS Bank (Hong Kong) Ltd. (“DBS HK”) had two branches (Shenzhen and Suzhou) in the People’s Republic of China (“PRC”) (collectively known as the “Former Branches”). On 22 December 2006, the Bank obtained an approval from the China Banking Regulatory Commission (“CBRC”) to be incorporated as a wholly-owned subsidiary of DBS Bank by consolidating the two branches of DBS Bank (Beijing and Guangzhou) and two branches of DBS HK (Shenzhen and Suzhou). The Shanghai Branch of DBS Bank was permitted to maintain its branch status to carry on its foreign currency business (the “Retained Branch”). The Retained Branch was closed on 30 December 2015.

The Bank obtained its finance approval license No.00000042 from the CBRC and obtained its business license (Shi Ju) Qi Du Hu Zong Zi No.044272 from the Shanghai’s State Administration of Industry and Commerce on 22 May 2007 and 24 May 2007, respectively. The initial registered/paid-up capital of the Bank was RMB 4 billion. Pursuant to the approval from CBRC on 21 August 2012(Yin Jian Fu(2012)No.429), the Bank increased its registered paid-up capital to RMB 6.3 billion. The Bank obtained a new business license No.1116082 from the Shanghai’s State Administration of Industry and Commerce on 24 September 2012. Pursuant to the approval from CBRC on 9 September 2016 (Hu Yin Jian Fu(2016)No.382), the Bank increased its registered paid-up capital to RMB 8.0 billion. The Bank obtained a new business license No.00000002201609290009 from the Shanghai’s State Administration of Industry and Commerce on 29 September 2016.

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

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

2 BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2018 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 2018 and of the financial performance, cash flows and other information for the year then ended.

4 CHANGES IN ACCOUNTING POLICIES

In addition to the following revisions, the accounting policies adopted by the Bank in preparing this financial statements are consistent with those adopted in prior year.

The MoF issued revised *CAS 14 (Revenue)* on 5 July 2017. The Bank chose to early adopt revised CAS 14 from 1 January 2018. This revision unifies the current income criterion and construction contract criterion into one income recognition model. Simultaneously it takes control transferring as the income-recognition judgment standard instead of risk transferring, and clarifies specific applications. The adoption of revised *CAS 14* has no material impact on the Bank's financial position, operating performance or cash flow.

The MoF issued revised *CAS 22 (Recognition and Measurement of Financial Instruments)*, *CAS 23 (Transfer of Financial Assets)*, *CAS 24 (Hedging)* and *CAS 37 (Presentation of Financial Instruments)* ("New CASs of financial instruments") in 2017. The Bank chose to early adopt above accounting standards from 1 January 2018. As permitted by the transitional provisions of new accounting standards, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were adjusted to the opening undistributed profits and other comprehensive income.

On 26 December 2018, the MoF issued the *Circular on revising and issuing the Formats of Financial Statements of Financial Enterprises for 2018* (the "Circular"). Companies which have implemented new CASs of financial instruments and revised revenue standard are required to present the financial statements in accordance with this Circular. Format in *CAS Application Guide* issued by the MoF on 13 October 2006 will no longer be effective. As the Bank adopted New CASs of financial instruments and revised CAS 14 from 1 January 2018, the Bank has presented its financial statements for the year ended 31 December 2018 in accordance with the Circular.

Set out below are disclosures relating to the impact from the adoption of new accounting standards on the Bank. Further details of the specific accounting policies applied in the current period (as well as the previous CAS 22 and CAS 23 ("previous CASs of financial instruments") applied in the comparative period) are described in note 5 below.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

4 CHANGES IN ACCOUNTING POLICIES(continued)

(a) Classification and measurement of financial instruments

The measurement category and the carrying amounts of financial assets and financial liabilities in accordance with new CASs of financial instruments as at 1 January 2018 are as follows:

	31 December 2017	Reclassifications	Remeasurements	1 January 2018 (Restated)
Financial assets				
At amortised cost				
Cash and balances with central banks	13,073,531,814	-	(2,854,312)	13,070,677,502
Due from banks and other financial institutions	10,534,746,393	-	(334,237)	10,534,412,156
Placements with and loans to banks	20,298,748,020	-	(24,475,162)	20,274,272,858
Loans and advances	44,245,741,851	-	(315,636,166)	43,930,105,685
Financial investments - debt instruments	-	469,217,894	3,848,001	473,065,895
Investment securities - loans and receivables	469,217,894	(469,217,894)	-	N/A
Interest receivable	714,511,277	-	-	714,511,277
At fair value through profit or loss				
Financial investments - trading assets	-	19,917,284,916	-	19,917,284,916
Financial assets at fair value through profit or loss	19,917,284,916	(19,917,284,916)	-	N/A
Derivative assets	8,365,624,289	-	-	8,365,624,289
Financial assets held under resale agreements	50,539,752	-	-	50,539,752
At fair value through other comprehensive income				
Financial investments - other debt instruments	-	2,709,065,463	-	2,709,065,463
Investment securities - available-for-sale	2,709,065,463	(2,709,065,463)	-	N/A
Total Financial assets	120,379,011,669	-	(339,451,876)	120,039,559,793
Liabilities				
Other liabilities	5,692,796,663	-	37,537,794	5,730,334,457
Total Liabilities	5,692,796,663	-	37,537,794	5,730,334,457

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

4 CHANGES IN ACCOUNTING POLICIES(continued)

(b) Reconciliation of impairment allowance balance

The following table reconciles the prior year's closing impairment allowance measured under the previous CASs of financial instruments to the expected credit loss allowance("ECL") measured under new CASs of financial instruments as at 1 January 2018:

Measurement category	Impairment allowance under previous CASs of financial instruments 31 December 2017	Reclassification	ECL	ECL Allowance under new CASs of financial instruments 1 January 2018
Amortised cost				
Cash and balances with central banks	-	-	2,854,312	2,854,312
Loans and advances	812,257,055	-	315,636,166	1,127,893,221
Due from banks and other financial institutions	-	-	334,237	334,237
Placements with and loans to banks	-	-	24,475,162	24,475,162
Investment securities - loans and receivables	5,622,105	(5,622,105)	-	-
Financial investments - debt instruments	-	5,622,105	(3,848,001)	1,774,104
Other assets	84,119,466	-	-	84,119,466
Other liabilities	265,972,429	-	37,537,794	303,510,223
Subtotal	1,167,971,055	-	376,989,670	1,544,960,725
Fair value through other comprehensive income				
Financial investments - other debt instruments	-	-	576,594	576,594
Total	1,167,971,055	-	377,566,264	1,545,537,319

As a result of the adoption of new CASs of financial instruments, the Bank's undistributed profits reduced from RMB 1,302,631,330 to RMB 1,010,517,974, and the opening other comprehensive income increased from RMB (47,997,748) to RMB (47,421,154) and deferred tax assets increased from RMB 481,168,410 to RMB 566,621,319.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 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.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (New CASs of financial instruments)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a). When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b). In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (New CASs of financial instruments) (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the carrying amount of financial assets, except for:

- (a). POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b). Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(1) Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Bank has applied new CASs of financial instruments and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (New CASs of financial instruments) (continued)

(1) Financial assets(continued)

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) The Bank's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains arising from investment'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net gains arising from trading activities' in the period in which it arises. Interest income from these financial assets is included in 'Net gains arising from trading activities' using the effective interest rate method.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (New CASs of financial instruments) (continued)

(1) Financial assets(continued)

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank manages its mortgage loans as to hold and collect the contractual cash flows. Only when the Bank issues asset-based securities can these loans be sold to SPVs which are included in the scope of consolidated financial statements. The transaction does not lead to the derecognition of financial assets within the Bank. For another example, the Bank holds portfolios for liquidity management, the business model of which includes both collection of contractual cash flows and sale of assets.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (New CASs of financial instruments) (continued)

(1) Financial assets(continued)

(ii) Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (New CASs of financial instruments) (continued)

(1) Financial assets(continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Bank neither transfers nor retains substantially all the risks and rewards of ownership, and the Bank has retained control of the transferred assets, the Bank applies continuing involvement approach. Under this approach, the Bank continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Bank. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Bank, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Bank when measured on a stand-alone basis, if the transferred asset is measured at fair value.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (New CASs of financial instruments) (continued)

(2) Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (Previous CASs of financial instruments)

(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 5 (G)).

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

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise;
- Certain financial assets or financial liabilities portfolios that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Financial assets 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. Unrealized gains or losses arising from changes in fair value of financial assets classified as available-for-sale financial assets are recognized in other comprehensive income and accumulated directly in equity after deducting tax impact. When sold or impaired, the accumulated fair value adjustments previously recognized in equity are reclassified to the income statement.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

E Financial assets and financial liabilities (Previous CASs of financial instruments) (continued)

(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.

(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, cancelled 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.

(7) Impairment of financial assets

(i) 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:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and/or financial conditions;
- a breach of contract, such as a default or delinquency in interest or principal payments;

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

**E Financial assets and financial liabilities (Previous CASs of financial instruments)
(continued)**

(7) Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- 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 Bank.

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 Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

**E Financial assets and financial liabilities (Previous CASs of financial instruments)
(continued)**

(7) Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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.

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.

(ii) 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 cannot be reversed.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

F Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 5.E); and
- The premium received on initial recognition less income recognised in accordance with the principles of CAS 14.

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calculated as described in Note 5.E). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as ECL allowance with new CASs of financial instruments.

The contractual amounts of loan commitments and financial guarantee contracts are disclosed as off-balance sheet items in Note 53.

G Derivative instruments and hedge accounting

The Bank has elected to apply the hedge accounting requirements of new CASs of financial instruments.

The Bank has not provided comparative information for periods before the date of initial application of new CASs of financial instruments for the new disclosures introduced by new CASs of financial instruments as a consequential amendment to new CAS 37, as permitted by new CAS 37 paragraph 104.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Bank assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) Their economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

G Derivative instruments and hedge accounting (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Bank documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

H 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%	12.5%-20%
Computers and other electronic equipment	2-5 years	0%	20%-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.

I 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.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

J 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.

K 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.

L 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.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

L Fee and commission income/expense(continued)

Under revised CAS 14, revenue is recognised when a performance obligation is satisfied, which could either be at a point in time or when the obligation is satisfied over time. Revised CAS 14 applies mainly to “fee and commission income” within the Bank.

Fee and commission income are recognised when the Bank has satisfied its performance obligation in providing the promised products and services to the customer, and are recognised based on contractual rates agreed with customers, net of expected waivers based on historical experience, and net of expenses directly related to it. The Bank generally satisfies its performance obligation and recognises the fee and commission income on the following basis:

- Transaction-based fee and commission income is recognised on the completion of the transaction. Such fees include underwriting fees, brokerage fees, bancassurance sales commission and variable service fees, and fees related to the completion of corporate finance transactions.
- For a service that is provided over a period of time, fee and commission income is recognised on equal proportion basis over the period during which the related service is provided or credit risk is undertaken. This basis of recognition most appropriately reflects the nature and pattern of provision of these services to the customers over time. Fees for these services can be billed to customers in advance or periodically over time. Such fees include the income from issuance of financial guarantees and bancassurance fixed service fees.

The Bank does not provide any significant credit terms to customers for the above products and services.

Directly related expenses typically include brokerage fees paid, card-related expenses and sales commissions, but do not include expenses for services delivered over a period (such as service contracts) and other expenses that are not specifically related to fee and commission income transactions.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

M 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.

N 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.

O Contingent liabilities and acceptances

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

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

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

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

P 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 recognized in the Bank's income statement according to the fair value of the equity instruments at the grant date and amortized over the vesting period with a corresponding adjustment to the payable to head office account.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

Q 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, Chongqing, Tianjin and Nanning of the PRC.

R 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 recognized 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 recognized 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 recognized 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 undistributed profits. 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 recognized amounts of the equity or debt securities.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

5 PRINCIPAL ACCOUNTING POLICIES(continued)

S 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 deducted against related costs, expenses or losses directly in current period. The Bank applies the presentation method consistently to the similar government grants in the financial statements.

Government grants 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.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

6 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 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.

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.

7 AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were authorized for issue by Board of Directors on February 14, 2019 .

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

8 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")	3%; 6%; 10%; 11%; 16%; 17%	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
Education surcharges	3%	The payment amount of VAT
Local education surcharges	2%	The payment amount of VAT
River way administrative toll	1%	The payment amount of VAT

Under the Corporate Income Tax Law of the People's Republic of China, the corporate income tax rate applicable to the Bank was 25% (2017: 25%).

Pursuant to the *Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment of the Value-Added Tax Rate* (Cai Shui [2018] 32) jointly issued by the Ministry of Finance and the State Administration of Taxation, it is stipulated that the VAT rate applicable to sales and importation shall be decreased from the current 17% and 11%, to 16% and 10% respectively from 1 May 2018.

9 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2018	31 December 2017
Cash	33,724,307	41,017,149
Statutory deposit reserve with the central bank (a)	6,189,654,807	6,100,571,439
Excess deposit reserve with the central bank	6,372,486,845	5,583,432,126
Foreign exchange risk reserve with central bank (b)	856,444,362	1,348,511,100
Interest receivable	3,816,861	N/A
Less: ECL allowance	<u>(2,312,954)</u>	<u>N/A</u>
	<u>13,453,814,228</u>	<u>13,073,531,814</u>

(a) According to the relevant provisions of the People's Bank of China ("PBOC"), the mandatory reserve ratio for customer deposits denominated in foreign currencies was 5% at 31 December 2018(31 December 2017: 5%).Such reserve is non-interest-bearing.

According to the relevant provisions of the PBOC, the mandatory reserve ratio for customer deposits denominated in RMB was 12.5% at 31 December 2018 (31 December 2017: 15%). RMB deposit reserve bears interest at annual rate of 1.62% (2017: 1.62%).

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

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

9 CASH AND DEPOSITS WITH THE CENTRAL BANK (continued)

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

Pursuant to the 'Circular on the Adjustment of Foreign Exchange Risk Reserve Policies' (Yin Fa [2018] 190), the reserve ratio of the bank's foreign exchange risk was adjusted to 20% from 6 August 2018, the reserve ratio of transactions completed before 6 August 2018 remains zero according to Yin Fa [2017] 207.

10 DEPOSITS WITH OTHER BANKS

	31 December 2018	31 December 2017
Deposits with domestic banks	5,677,685,775	9,154,699,749
Deposits with overseas banks	917,004,949	1,131,566,272
Deposits with overseas related parties (Note 57(e)(3)(i))	166,374,374	248,480,372
Interest receivable	19,424,058	N/A
Less: ECL allowance	(126,110)	N/A
	<u>6,780,363,046</u>	<u>10,534,746,393</u>

11 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Placements with domestic banks	3,277,251,750	842,778,520
Placements with domestic financial institutions	18,098,942,767	15,939,624,500
Placements with overseas related parties (Note 57(e)(3)(i))	4,120,530,000	3,516,345,000
Interest receivable	342,357,660	N/A
Less: ECL allowance	(11,825,282)	N/A
	<u>25,827,256,895</u>	<u>20,298,748,020</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

12 FINANCIAL INVESTMENTS - TRADING ASSETS

	31 December 2018	31 December 2017
Bonds issued by policy banks	8,228,194,287	N/A
Corporate bonds	322,290,174	N/A
Treasury bonds issued by central government	771,723,285	N/A
Treasury bonds issued by municipal government	161,899,915	N/A
Negotiable certificates of deposit	5,197,322,385	N/A
Asset Backed Securities	3,601,445	N/A
Interest receivable	202,447,119	N/A
	<u>14,887,478,610</u>	<u>N/A</u>

As at 31 December 2018, trading assets amounting to RMB 3,450,000,000 were pledged as collateral under repurchase agreements with other banks (31 December 2017, RMB 1,830,000,000).

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Bonds issued by policy banks	N/A	2,600,667,129
Corporate bonds	N/A	2,563,803,266
Treasury bonds issued by central government	N/A	296,322,085
Treasury bonds issued by municipal government	N/A	29,395,058
Negotiable certificates of deposit	N/A	14,367,157,735
Short-term commercial paper issued by security companies	N/A	59,939,643
	<u>N/A</u>	<u>19,917,284,916</u>

From 1 January 2018, the Bank has applied new CASs of financial instruments and financial assets at fair value through profit or loss are reclassified to trading assets.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

14 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

14.1 DERIVATIVE INSTRUMENTS

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

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

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

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

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

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

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

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.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

14 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

14.1 DERIVATIVE INSTRUMENTS(continued)

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

31 December 2018	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	18,962,546,123	107,489,577	(227,746,728)
Foreign exchange swap	417,307,389,299	4,314,145,435	(3,192,249,527)
Foreign exchange option	93,367,826,029	600,850,138	(635,258,516)
Cross-currency swap	12,339,373,656	51,945,225	(87,473,705)
	<u>541,977,135,107</u>	<u>5,074,430,375</u>	<u>(4,142,728,476)</u>
Interest rate derivatives			
Interest rate swap	888,883,972,220	6,267,521,964	(6,363,705,429)
Interest rate cap and floor	21,625,986,319	3,824,493	(3,819,004)
	<u>910,509,958,539</u>	<u>6,271,346,457</u>	<u>(6,367,524,433)</u>
Other derivatives			
Equity derivatives	11,886,489,944	1,415,867,650	(1,415,734,495)
Commodity derivatives	1,417,110,207	18,942,039	(18,942,039)
Credit derivatives	1,236,159,000	3,725,257	(3,725,257)
	<u>14,539,759,151</u>	<u>1,438,534,946</u>	<u>(1,438,401,791)</u>
Total	<u>1,467,026,852,797</u>	<u>12,784,311,778</u>	<u>(11,948,654,700)</u>
31 December 2017			
		Fair value	
	Notional amount	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)
	<u>565,781,761,388</u>	<u>6,681,239,917</u>	<u>(7,836,070,191)</u>
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)
	<u>1,013,362,793,396</u>	<u>1,567,899,797</u>	<u>(1,583,173,495)</u>
Equity derivatives	<u>8,087,725,882</u>	<u>116,484,575</u>	<u>(115,456,394)</u>
Total	<u>1,587,232,280,666</u>	<u>8,365,624,289</u>	<u>(9,534,700,080)</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

14 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

14.2 HEDGE ACCOUNTING

The Bank applies hedge accounting in two separate hedging strategies, as follows:

Interest rate risk on fixed rate financial assets and financial liabilities (fair value hedge)

The Bank holds long-term fixed rate financial liabilities and therefore is exposed to changes in fair value due to movements in market rates. The Bank manages this risk exposure by entering into receive fixed/pay floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The interest rate risk component is determined as the change in fair value of the long-term fixed rate financial assets and financial liabilities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the financial assets or financial liabilities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Bank establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

- 1) Differences between the expected and actual holding amount, as the Bank hedges to the expected maturity date but may sell the bond investment according to trading strategies;
- 2) The credit risk of the counterparty impacts the fair value of interest rate swaps, but has no impacts on hedged items

Foreign exchange risk on foreign currency debt (cash flow hedge)

The Bank obtains effective sources of funding from international markets. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange financial liabilities such as placements from banks in the foreign currency for financial liabilities in RMB. These instruments are entered into to match the maturity profile of estimated repayments of the Bank's debt instruments. This hedging strategy is applied to the portion of the exposure that is not naturally offset against matching asset positions held by the Bank in financial investments also denominated in foreign currencies.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in cash flows of the instrument.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

14 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

14.2 HEDGE ACCOUNTING(continued)

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign exchange contracts with changes in fair value of the hedged liabilities attributable to the hedged risk or changes in net present value of future cash flows using the hypothetical derivative method.

The Bank establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

1) Differences between the expected and actual volume of prepayments, as the Bank hedges to the expected repayment date taking into account expected prepayments based on past experience;

2) The credit risk of the counterparty impacts the fair value of interest rate swaps, but has no impacts on hedged items.

(a) Fair value hedge

As at 31 December 2018, derivative contracts designated as hedging instruments by the Bank are as follows:

	notional amount	Fair Value	
		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	1,000,000,000	-	(1,881,140)

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

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

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

Net loss on fair value hedges are as follows:

	2018	2017
—hedging instruments	42,738,046	(1,442,474)
—hedged items: bonds issued	(42,921,664)	1,348,689
Net loss on fair value hedges	<u>(183,618)</u>	<u>(93,785)</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

14 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING(continued)

14.2 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 2018, the Bank's net loss from the cash flow hedge of RMB 3.36 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 2018. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2018, as a result of the highly probable cash flows no longer being expected to occur.

15 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December 2018	31 December 2017
Financial assets purchased under resale agreements	-	50,539,752
Total	<u>-</u>	<u>50,539,752</u>

16 INTEREST RECEIVABLE

	31 December 2018	31 December 2017
Loans and advances	N/A	275,492,004
Deposits and placements with financial institutions	N/A	268,078,550
Financial assets at fair value through profit or loss	N/A	96,822,904
Investment securities - available-for-sale	N/A	70,053,918
Deposits with the central bank	N/A	3,674,175
Investment securities - loans and receivables	N/A	379,347
Financial assets purchased under resale agreements	N/A	10,379
	<u>N/A</u>	<u>714,511,277</u>

According to the Circular, interest receivables from financial assets are presented in respective asset categories from 2018, except for overdue interest receivables which are included in other assets.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

17 LOANS AND ADVANCES

	31 December 2018	31 December 2017
Loans and advances carried at amortised cost		
Retail loans		
-Mortgage loans	5,849,950,777	6,308,893,353
-Others	<u>614,062,032</u>	<u>754,071,903</u>
	<u>6,464,012,809</u>	<u>7,062,965,256</u>
Corporate loans and advances		
-Loans	25,942,142,432	26,395,535,779
-Trade finance	11,890,927,067	10,838,225,288
-Discounted bills and others	<u>632,018,511</u>	<u>761,272,583</u>
	<u>38,465,088,010</u>	<u>37,995,033,650</u>
Interest receivable	<u>245,099,632</u>	<u>N/A</u>
Total loans and advances carried at amortised cost	<u>45,174,200,451</u>	<u>45,057,998,906</u>
Individual impairment allowance	N/A	(185,678,864)
Collective impairment allowance	N/A	(626,578,191)
Total impairment allowance	<u>N/A</u>	<u>(812,257,055)</u>
Less: ECL allowance	<u>(1,123,948,399)</u>	<u>N/A</u>
Net Loans and advances	<u>44,050,252,052</u>	<u>44,245,741,851</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

17 LOANS AND ADVANCES (continued)

(1) Industry sector:

	31 December 2018		31 December 2017	
	Balance	%	Balance	
Retail loans	6,464,012,809	14%	7,062,965,256	17%
Wholesale and retail business	9,288,037,598	21%	9,447,268,394	21%
Manufacturing	8,283,667,382	18%	10,758,853,291	24%
Real estate	7,668,480,656	17%	7,430,208,604	16%
Finance	6,171,414,280	14%	829,616,479	2%
Information and technology	2,336,888,156	5%	1,539,409,713	3%
Leasing and commercial services	1,654,325,029	4%	4,355,556,313	10%
Transportation, storage and postal	1,637,523,898	4%	1,793,629,130	4%
Electricity, Gas and Water	583,604,676	1%	488,693,690	1%
Agriculture, Hunting, Forestry and Fishing	361,648,710	1%	423,171,125	1%
Construction	181,007,016	0%	397,495,192	1%
Hotel and restaurant	148,899,641	0%	155,276,970	0%
Other industries	149,590,968	0%	375,854,749	0%
Interest receivable	245,099,632	1%	N/A	N/A
Total gross	45,174,200,451	100%	45,057,998,906	100%

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

17 LOANS AND ADVANCES (continued)

(2) Geographic sector:

	31 December 2018	31 December 2017
Shanghai	28,110,742,309	28,187,701,051
Beijing	4,346,012,457	4,766,274,664
Shenzhen	2,931,143,022	3,027,597,121
Guangzhou	2,863,425,377	2,321,229,987
Suzhou	1,635,542,046	1,046,293,229
Xi'an	1,378,750,000	1,494,250,000
Chongqing	1,049,605,876	1,225,783,291
Hangzhou	898,169,620	1,031,643,076
Nanning	784,929,925	831,160,171
Qingdao	439,618,654	155,703,433
Tianjin	294,583,693	672,771,005
Dongguan	196,577,840	297,591,878
Interest receivable	245,099,632	N/A
Total gross	<u>45,174,200,451</u>	<u>45,057,998,906</u>

(3) By type of collateral and guarantee:

	31 December 2018	31 December 2017
Clean loans	9,272,978,522	9,720,881,923
With guarantee only	10,249,816,097	10,673,385,723
With collateral only	13,482,562,301	14,643,232,101
With both collateral and guarantee	11,923,743,899	10,020,499,159
Interest receivable	245,099,632	N/A
Total gross	<u>45,174,200,451</u>	<u>45,057,998,906</u>

(4) Loans and advances past due:

	31 December 2018				
	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	47,111,393	-	-	-	47,111,393
With guarantee only	37,673,245	198,469,532	-	4,702,918	240,845,695
With collateral only	436,421,806	24,006,704	29,813,498	22,950,767	513,192,775
With both collateral and guarantee	12,601,074	4,823,916	119,610,375	7,672,809	144,708,174
Total gross	<u>533,807,518</u>	<u>227,300,152</u>	<u>149,423,873</u>	<u>35,326,494</u>	<u>945,858,037</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

17 LOANS AND ADVANCES (continued)

(4) Loans and advances past due (continued)

	31 December 2017				Total
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	
Clean loans	-	-	-	-	-
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	<u>455,865,054</u>	<u>115,877,010</u>	<u>104,070,292</u>	<u>14,084,601</u>	<u>689,896,957</u>

18 FINANCIAL INVESTMENTS - OTHER DEBT INSTRUMENTS

Other debt instruments refer to debt instruments classified as FVOCI.

	31 December 2018	31 December 2017
Treasury bonds issued by central government	3,502,344,525	N/A
Treasury bonds issued by municipal government	39,899,849	N/A
Bonds issued by policy banks	3,199,097,820	N/A
Interest receivable	147,341,978	N/A
	<u>6,888,684,172</u>	<u>N/A</u>

As at 31 December 2018, the notional amount of other debt instruments pledged is RMB 300,000,000. As at 31 December 2017, the notional amount of available for sale financial assets pledged is RMB 350,000,000.

19 INVESTMENT SECURITIES – AVAILABLE FOR SALE

	31 December 2018	31 December 2017
Treasury bonds issued by central government	N/A	1,047,753,154
Local Treasury bonds issued by municipal government	N/A	38,890,459
Bonds issued by policy banks	N/A	1,622,421,850
	<u>N/A</u>	<u>2,709,065,463</u>

From 1 January 2018, the Bank has applied new CASs of financial instruments, and investments securities – available for sale are reclassified to financial investments - other debt instruments.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

20 FINANCIAL INVESTMENTS - DEBT INSTRUMENTS

This asset category refers to debt instruments measured at amortised cost.

	31 December 2018	31 December 2017
Assets backed securities	158,850,000	N/A
Interest receivable	135,262	N/A
Less: ECL allowance	(1,907,763)	N/A
	<u>157,077,499</u>	<u>N/A</u>

21 INVESTMENT SECURITIES – LOANS AND RECEIVABLES

	31 December 2018	31 December 2017
Assets backed securities	N/A	474,840,000
Impairment allowance-collectively assessed	N/A	(5,622,106)
	<u>N/A</u>	<u>469,217,894</u>

From 1 January 2018, the Bank has applied new CASs of financial instruments and investments securities – loans and receivables are reclassified to financial investments - debt instruments.

22 FIXED ASSETS

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 2018	99,286,806	259,759,282	359,046,088
Add: Addition	2,726,944	23,236,211	25,963,155
Less: Disposal/write-off	(4,319,464)	(12,867,063)	(17,186,527)
At 31 December 2018	<u>97,694,286</u>	<u>270,128,430</u>	<u>367,822,716</u>
Accumulated depreciation			
At 1 January 2018	76,152,215	181,215,202	257,367,417
Add: Charge for the year	12,510,921	34,118,354	46,629,275
Less: Disposal/write-off	(4,220,503)	(12,639,086)	(16,859,589)
At 31 December 2018	<u>84,442,633</u>	<u>202,694,470</u>	<u>287,137,103</u>
Net book value			
At 31 December 2018	<u>13,251,653</u>	<u>67,433,960</u>	<u>80,685,613</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

22 FIXED ASSETS (continued)

	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	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	<u>99,286,806</u>	<u>259,759,282</u>	<u>359,046,088</u>
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	<u>76,152,215</u>	<u>181,215,202</u>	<u>257,367,417</u>
Net book value			
At 31 December 2017	<u>23,134,591</u>	<u>78,544,080</u>	<u>101,678,671</u>

23 LONG-TERM PREPAID EXPENSES

	Leasehold improvement	Others	Total
As at 1 January 2018	11,048,629	283,051	11,331,680
Additions	816,018	-	816,018
Transfer-out	(568,519)	-	(568,519)
Amortization	(5,864,738)	(28,785)	(5,893,523)
As at 31 December 2018	<u>5,431,390</u>	<u>254,266</u>	<u>5,685,656</u>
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	<u>11,048,629</u>	<u>283,051</u>	<u>11,331,680</u>

24 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 2017: 25%).

The movements of deferred taxation are shown as below:

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

24 DEFERRED INCOME TAX ASSETS(continued)

	2018	2017
At end of last year	481,168,410	362,639,053
Impact from adopting New CASs of financial instruments	<u>85,452,909</u>	<u>N/A</u>
At beginning of year	566,621,319	362,639,053
Income statement credit (Note 50)	(8,348,878)	101,285,777
Available-for-sale securities		
- Fair value measurement (Note 51)	N/A	17,701,416
Other debt instruments		
- Fair value measurement (Note 51)	(27,227,652)	N/A
Other debt instruments		
- ECL (Note 51)	4,260	N/A
Cash flow hedge reserve (Note 51)	<u>3,092,692</u>	<u>(457,836)</u>
At end of year	<u>534,141,741</u>	<u>481,168,410</u>

(1) Deferred tax assets

	31 December 2018		31 December 2017	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for loan impairment	373,865,372	1,495,461,489	213,801,260	855,205,037
Provision for other impairment	56,408,058	225,632,231	128,735,647	514,942,587
Fair value measurement of available-for-sale securities	N/A	N/A	18,129,120	72,516,480
Fair value measurement of trading assets	24,108,886	96,435,545	N/A	N/A
Share based incentive plan not exercised	12,194,867	48,779,474	12,660,669	50,642,677
Accrued expenses	76,402,725	305,610,900	109,248,079	436,992,317
Losses on disposal of fixed assets	256,105	1,024,420	555,426	2,221,705
	<u>543,236,013</u>	<u>2,172,944,059</u>	<u>483,130,201</u>	<u>1,932,520,803</u>

The estimated amount to be recovered comprised:

	31 December 2018		31 December 2017	
Within 1 year (including 1 year)	100,511,611	305,610,900	109,248,079	436,992,317
After 1 year	<u>442,724,402</u>	<u>1,867,333,159</u>	<u>373,882,122</u>	<u>1,495,528,486</u>
	<u>543,236,013</u>	<u>2,172,944,059</u>	<u>483,130,201</u>	<u>1,932,520,803</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

24 DEFERRED INCOME TAX ASSETS(continued)

(2) Deferred tax liabilities

	31 December 2018		31 December 2017	
	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	N/A	N/A	(1,961,791)	(7,847,164)
Fair value measurement of other debt instruments	(8,954,383)	(35,817,537)	N/A	N/A
ECL on other debt instruments	(139,889)	(559,554)	N/A	N/A
	<u>(9,094,272)</u>	<u>(36,377,091)</u>	<u>(1,961,791)</u>	<u>(7,847,164)</u>

The estimated amount to be recovered comprised:

Within 1 year (including 1 year)	-	-	(1,961,791)	(7,847,164)
After 1 year	<u>(9,094,272)</u>	<u>(36,377,091)</u>	<u>-</u>	<u>-</u>
	<u>(9,094,272)</u>	<u>(36,377,091)</u>	<u>(1,961,791)</u>	<u>(7,847,164)</u>

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

	31 December 2018	31 December 2017
Deferred tax assets, net	<u>534,141,741</u>	<u>481,168,410</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

25 OTHER ASSETS

	31 December 2018	31 December 2017
Security Deposits and guarantee deposits	1,414,656,790	2,584,440,317
Receivables from related parties (Note 57(e)(3)(iii))	38,561,643	28,534,316
Settlement receivables from customers	77,503,525	174,344,072
Less: ECL allowance	(36,620,147)	N/A
Less: Provision for settlement receivables from customers	N/A	(84,119,467)
Net settlement receivables from customers	40,883,378	90,224,605
Prepaid expenses	14,842,301	13,690,248
Others	142,735,466	262,515,089
	<u>1,651,679,578</u>	<u>2,979,404,575</u>
	2018	2017
	ECL allowance	Provision for settlement receivables from customers
At 1 January	84,119,467	131,678,081
Impairment losses	(34,340,501)	(6,940,321)
Write-off	(13,340,631)	(40,529,025)
Foreign Exchange difference	181,812	(89,268)
At 31 December	<u>36,620,147</u>	<u>84,119,467</u>

26 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Deposits from domestic financial institutions	1,494,362,911	771,465,177
Deposits from overseas financial institutions	140,093,232	3,961,693,027
Deposits from overseas related parties (Note 57(e)(3)(iv))	697,006,965	1,005,293,755
Interest payable	14,372,932	N/A
	<u>2,345,836,040</u>	<u>5,738,451,959</u>

27 BORROWING FROM OTHER BANKS

	31 December 2018	31 December 2017
Placements from domestic banks	7,486,205,550	7,974,295,625
Placements from overseas related parties (Note 57(e)(3)(iv))	12,905,187,182	27,605,963,505
Interest payable	140,369,502	N/A
	<u>20,531,762,234</u>	<u>35,580,259,130</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2018	31 December 2017
Financial assets sold under repurchase agreements	3,624,394,018	1,858,576,944
Interest payable	2,854,997	N/A
	<u>3,627,249,015</u>	<u>1,858,576,944</u>

29 DUE TO CUSTOMERS

	31 December 2018	31 December 2017
At amortized cost		
Corporate current deposits	15,056,767,822	13,398,719,655
Corporate time deposits	26,043,300,238	22,409,021,506
Retail current deposits	2,528,684,790	3,073,513,714
Retail time deposits	5,574,705,415	4,869,130,569
SIPs sold to corporate customers	10,654,972,600	6,002,836,973
SIPs sold to retail customers	830,043,548	561,745,000
Interest payable	305,051,234	N/A
	<u>60,993,525,647</u>	<u>50,314,967,417</u>

30 PAYROLL AND WELFARE PAYABLE

	31 December 2018	31 December 2017
Short-term employee benefits	126,685,496	122,961,701
Defined contribution plans	6,684,944	6,130,269
	<u>133,370,440</u>	<u>129,091,970</u>

	31 December 2017	Additions	Deductions	31 December 2018
Short-term employee benefits	122,961,701	918,760,490	(915,036,695)	126,685,496
Defined contribution plans	6,130,269	139,664,067	(139,109,392)	6,684,944
	<u>129,091,970</u>	<u>1,058,424,557</u>	<u>(1,054,146,087)</u>	<u>133,370,440</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

31 TAXES PAYABLE

	31 December 2018	31 December 2017
Corporate income tax payable	26,883,397	142,364,960
Value added tax and surcharges payable	42,592,566	41,187,520
Withholding corporate tax	8,138,478	16,761,397
Withholding individual income tax and others	37,092,797	25,582,036
	<u>114,707,238</u>	<u>225,895,913</u>

32 INTEREST PAYABLE

	31 December 2018	31 December 2017
Due to customers	N/A	356,711,388
Bonds issued	N/A	3,534,247
Deposits / borrowing from other banks and financial institutions	N/A	43,216,879
Financial assets sold under repurchase agreements	N/A	869,396
	<u>N/A</u>	<u>404,331,910</u>

According to the Circular, interest payables from financial liabilities are presented in respective liability categories from 2018, except for overdue interest payables which are included in other liabilities.

33 BONDS ISSUED

	31 December 2018	31 December 2017
Negotiable Certificate of Deposit	2,585,845,532	1,992,099,511
RMB bonds	4,990,647,234	1,951,926,212
Interest payable	65,987,672	N/A
	<u>7,642,480,438</u>	<u>3,944,025,723</u>

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 18 July 2018, the Bank issued a financial bond with notional amount of RMB 3,000 million in the PRC inter-bank market. The bond bears interest at annual rate of 4.55% and its maturity date is 18 July 2021.

As of 31 December 2018, the Bank has issued the Negotiable Certificate of Deposit with total notional amount of RMB 2,600 million in the PRC inter-bank market. The terms are from 1 month to 9 months.

34 PROVISION

	1 January 2018	Current Year Provision and Reversal	Others	31 December 2018
ECL for off -balance sheet items	303,510,223	(284,264,894)	17,667,505	36,912,834

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

35 OTHER LIABILITIES

	31 December 2018	31 December 2017
Accrued expenses	136,792,811	213,957,191
Payable to overseas related parties (Note 57(e)(3)(viii))	893,646,267	269,054,046
Settlements payable	265,157,809	980,448,224
Unearned commission income	79,000,828	47,544,317
Provision for loss in respect of off-balance sheet items	N/A	265,972,429
Non-principal protected SIPs – retail customers	5,765,336,688	3,895,471,667
Mark-to-market margin of Shanghai clearing house	1,448,475,271	-
Others	25,710,524	20,348,789
	<u>8,614,120,198</u>	<u>5,692,796,663</u>

36 PAID-IN CAPITAL

	31 December 2018	31 December 2017
Registered and fully paid by DBS Bank	<u>8,000,000,000</u>	<u>8,000,000,000</u>

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

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

As of 31 December 2018, the paid-in capital of the Bank is equivalent RMB 8 billion.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

37 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 2018	31 December 2017
Transfer of capital surplus recognised under the previous accounting system	22,571,343	22,571,343
Tax credits from employee share-based plans	4,691,584	-
	<u>27,262,927</u>	<u>22,571,343</u>

38 SURPLUS RESERVE

	31 December 2018	31 December 2017
Reserve Fund		
At beginning of year	255,492,371	242,634,046
Current year addition	79,881,941	12,858,325
At end of year	<u>335,374,312</u>	<u>255,492,371</u>

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

39 GENERAL RISK RESERVE

	31 December 2018	31 December 2017
At beginning of year	996,800,000	990,800,000
Current year addition	238,100,000	6,000,000
At end of year	<u>1,234,900,000</u>	<u>996,800,000</u>

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

On 31 January 2018, the directors approved an appropriation to the Bank's general risk reserve amounting to RMB 238,100,000 in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 1,234,900,000.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

40 UNDISTRIBUTED PROFITS

On 30 January 2019, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 62.7 million, in accordance with Circular Caijin No.20 issued in 2012.

41 NET INTEREST INCOME

	2018	2017
Interest income:		
Loans and advances	2,296,338,241	1,937,689,430
Due from other banks and financial institutions	1,305,407,662	891,789,124
Deposits with the central bank	118,636,888	116,342,713
Investment securities – available- for-sale	N/A	85,013,729
Investment securities - loans and receivables	N/A	12,860,555
Other debt instruments	149,523,129	N/A
Debt instruments	17,126,509	N/A
Financial assets purchased under resale agreements	N/A	6,781,664
	<u>3,887,032,429</u>	<u>3,050,477,215</u>
Interest expense:		
Due to other banks and financial institutions	(873,790,919)	(649,382,096)
Due to customers	(1,342,120,583)	(1,050,765,365)
Bonds issued	(150,882,783)	(87,416,442)
Financial assets sold under repurchase agreements	(107,461,155)	(54,573,876)
	<u>(2,474,255,440)</u>	<u>(1,842,137,779)</u>
Net interest income	<u>1,412,776,989</u>	<u>1,208,339,436</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

42 NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Loan and trade related fee	90,805,366	121,400,048
Wealth management fee	93,505,707	73,624,297
Treasury advisory fee	14,576,005	47,679,661
Syndication fee	32,969,725	20,954,865
Cash Management fee	30,067,208	16,114,789
Others	26,156,952	18,415,553
	<u>288,080,963</u>	<u>298,189,213</u>
Fee and commission expense		
Settlement and clearing fees, brokerage expenses	(76,314,022)	(86,503,912)
	<u>(76,314,022)</u>	<u>(86,503,912)</u>
Net fee and commission income	<u>211,766,941</u>	<u>211,685,301</u>

43 INVESTMENT INCOME

	2018	2017
Trading assets	838,242,792	484,738,632
Other debt instruments	15,161,310	N/A
Financial assets purchased under resale agreements	1,456,247	N/A
Derivative instruments	181,409,536	300,747,523
	<u>1,036,269,885</u>	<u>785,486,155</u>

44 FAIR VALUE GAINS

	2018	2017
Net unrealized gains on financial assets purchased under resale and sold under repurchase agreements	(507,062)	43,292
Net unrealized losses on trading assets	(9,605,144)	(34,460,765)
Net unrealized losses/ gains on non-foreign exchange derivative instruments	(81,799,304)	(908,705,064)
	<u>(91,911,510)</u>	<u>(943,122,537)</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

45 EXCHANGE GAINS

	2018	2017
Net gains from foreign exchange transactions and foreign exchange derivatives instruments	<u>237,387,940</u>	<u>843,321,332</u>

The amount include the realized and unrealized gains and losses from foreign exchange derivative instruments, and exchange gains and losses from translation of foreign currency assets and liabilities.

46 OTHER INCOME

	2018	2017
Financial talents award	6,990,000	7,160,000
New regional financial institution subsidies	-	2,000,000
Key tax enterprise award	800,063	-
Modern Service Industry Developing Funds Subsidies	<u>200,000</u>	<u>-</u>
	<u>7,990,063</u>	<u>9,160,000</u>

47 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Salaries and bonus	836,080,398	799,962,738
Social insurance and other welfare benefits	200,728,892	192,157,516
Share-based compensation plan	21,615,267	25,581,869
Telecommunications and computers	155,230,653	227,155,831
Rental and utilities	152,158,698	164,892,757
Depreciation and amortization	52,522,798	43,777,663
Travelling expenses	24,253,193	23,144,669
Business entertainment expenses	9,790,752	12,140,129
Staff training expenses	3,161,297	1,188,474
Others	<u>169,426,315</u>	<u>144,171,143</u>
	<u>1,624,968,263</u>	<u>1,634,172,789</u>

48 CREDIT IMPAIRMENT LOSSES

	2018	2017
ECL on cash and deposits with the central Bank	(541,358)	N/A
ECL on deposits with other banks	(208,127)	N/A
ECL on placements with financial institutions	(12,649,880)	N/A
ECL on loans and advances	464,206,831	N/A
ECL on debt instruments	133,659	N/A
ECL on off -balance sheet items	(284,264,894)	N/A
ECL on other debt instruments	(17,040)	N/A
ECL on other assets	<u>(34,340,501)</u>	<u>N/A</u>
Total ECL charge	<u>132,318,690</u>	<u>N/A</u>
Recovery of loans previously written-off	<u>(7,572,245)</u>	<u>N/A</u>
	<u>124,746,445</u>	<u>N/A</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

48 CREDIT IMPAIRMENT LOSSES (continued)

The additional information of ECL movement included the allowances of all financial assets and provision is as follow:

	General allowances (Non-impaired)		Specific allowances (Impaired)	Total
	Stage 1	Stage 2	Stage 3	
2018				
Balance at 1 January	497,489,845	512,276,715	535,770,759	1,545,537,319
Transfer to (from)	(2,597,306)	(1,966,933)	4,564,239	-
- Stage 1	(3,075,842)	2,679,507	396,335	-
- Stage 2	478,536	(4,646,440)	4,167,904	-
- Stage 3	-	-	-	-
Net portfolio change	26,615,343	3,420,390	-	30,035,733
- Newly originated or purchased financial assets	36,737,050	4,361,119	-	41,098,169
- Derecognition of financial assets	(10,121,707)	(940,729)	-	(11,062,436)
Remeasurements due to changes in parameters	30,570,735	(100,319,777)	176,528,787	106,779,745
Model refinements*	(4,489,066)	(7,722)	-	(4,496,788)
Total net charge to income statement	50,099,706	(98,874,042)	181,093,026	132,318,690
Net write-offs	-	-	(483,102,002)	(483,102,002)
Exchange and other movements	-	-	19,459,036	19,459,036
Balance at 31 December	547,589,551	413,402,673	253,220,819	1,214,213,043

* The retail methodology was refined during the year to replace Basel models with actual historical losses and forecasted losses based on adjustments to historical losses, informed by macroeconomic forecasts. No other significant model refinements were made.

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

48 CREDIT IMPAIRMENT LOSSES (continued)

The additional information of ECL allowance of all financial assets as of 31 December 2018 is as follow:

Amortised cost	31 December 2018
Cash and balances with central banks	2,312,954
Loans and advances	1,123,948,399
Due from banks and other financial institutions	126,110
Placements with and loans to banks	11,825,282
Financial investments - debt instruments	1,907,763
Other assets	36,620,147
Provision	36,912,834
Subtotal	<u>1,213,653,489</u>
Fair value through other comprehensive income	
Financial investments - other debt instruments	<u>559,554</u>
Total	<u>1,214,213,043</u>

49 ASSET IMPAIRMENT LOSSES

	2018	2017
Impairment losses on loans and advances	N/A	129,354,855
Impairment losses on off-balance-sheet assets	N/A	176,342,786
Impairment losses on other assets for non-performing assets sell down	N/A	-
Recovery of loans previously written-off	N/A	(13,566,130)
Impairment losses on other assets	N/A	(6,940,321)
Impairment losses on investment securities		
-loans and receivables	N/A	4,364,634
	<u>N/A</u>	<u>289,555,824</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

50 INCOME TAX

	2018	2017
Current income tax	246,129,484	154,455,870
Deferred income tax (Note 24)	8,348,878	(101,285,777)
	<u>254,478,362</u>	<u>53,170,093</u>

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

	2018	2017
Profit before income tax	<u>1,053,297,768</u>	<u>181,753,342</u>
Income tax calculated at 25% (2017: 25%)	263,324,442	45,438,336
Non-taxable income	(18,391,885)	(10,257,679)
Non-deductible expenses	9,552,406	18,497,838
Others	(6,601)	(508,402)
	<u>254,478,362</u>	<u>53,170,093</u>

51 OTHER COMPREHENSIVE INCOME

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

	2018		
	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 other debt instruments	108,334,017	(27,227,652)	81,106,365
ECL on other debt instruments	(17,040)	4,260	(12,780)
Cash flow hedge reserve	<u>(12,845,717)</u>	<u>3,092,692</u>	<u>(9,753,025)</u>
Total other comprehensive income	<u>95,471,260</u>	<u>(24,130,700)</u>	<u>71,340,560</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

51 OTHER COMPREHENSIVE INCOME(continued)

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

	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	1,831,341	(457,835)	1,373,506
Total other comprehensive income	(68,974,318)	17,243,580	(51,730,738)

- (2) Reconciliation of other comprehensive income

	Gains or losses arising from changes in fair value of available-for-sale financial assets	Gains or losses arising from changes in fair value of other debt instruments	ECL on other debt instruments	Cash flow hedge	Total other comprehensive income
31 December 2016	(1,283,115)	N/A	N/A	5,016,105	3,732,990
Movements for the year ended 31 December 2017	(53,104,244)	N/A	N/A	1,373,506	(51,730,738)
31 December 2017	(54,387,359)	N/A	N/A	6,389,611	(47,997,748)
Accounting changes influence	N/A	-	576,594	-	576,594
1 January 2018	N/A	(54,387,359)	576,594	6,389,611	(47,421,154)
Movements for the year ended 31 December 2018	N/A	81,106,365	(12,780)	(9,753,025)	71,340,560
31 December 2018	N/A	26,719,006	563,814	(3,363,414)	23,919,406

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

52 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2018	31 December 2017
Cash (Note 9)	33,724,307	41,017,149
Balances with the PBOC other than restricted reserve deposits (Note 9)	6,372,486,845	5,583,432,126
Deposits with other banks with original terms less than three months from acquisition date	5,736,147,795	6,338,312,506
Placements with financial institutions with original terms less than three months from acquisition date	8,140,563,250	5,335,308,000
	<u>20,282,922,197</u>	<u>17,298,069,781</u>

(2) Cash flows from operating activities

	Notes	2018	2017
Net profit		798,819,406	128,583,249
Adjusted by:			
Credit impairment losses	48	132,318,690	N/A
Impairment charge for asset losses	49	N/A	303,121,954
Depreciation and amortization	47	52,522,798	43,777,663
Interest income for investment securities – available-for-sale and Investment securities - loans and receivables	41	N/A	(97,874,284)
Interest income for other debt instruments and debt instruments	41	(166,649,638)	N/A
Gains for other debt instruments	43	(15,161,310)	N/A
Losses on retirement of fixed assets		326,938	1,077,653
Interest expenses of bonds issued		150,882,783	87,416,442
Loss from fair value change	44	91,911,510	943,122,537
Decrease /(Increase) in deferred income tax assets		8,348,878	(101,285,777)
Decrease /(Increase) in operating receivables		4,816,296,502	(25,561,477,509)
(Decrease) /Increase in operating payables		<u>(3,313,644,362)</u>	<u>25,807,206,579</u>
Net cash provided from operating activities		<u>2,555,972,195</u>	<u>1,553,668,507</u>

(3) Net increase in cash and cash equivalents:

Cash and cash equivalents at end of year	20,282,922,197	17,298,069,781
Less: cash and cash equivalents at beginning of year	<u>(17,298,069,781)</u>	<u>(15,723,934,547)</u>
Net increase in cash and cash equivalents	<u>2,984,852,416</u>	<u>1,574,135,234</u>

DBS BANK (CHINA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts expressed in RMB unless otherwise stated)
 [English translation for reference only]

53 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Off-balance sheet items

	31 December 2018	31 December 2017
Letters of credit issued	2,534,986,131	3,327,277,162
Standby letter of credit	5,504,221,048	4,365,485,792
Letters of guarantee issued	1,385,666,535	924,197,154
Irrevocable loan commitment	2,419,522,753	1,801,408,829
Bank acceptances	3,503,421,149	2,381,848,691
Letters of credit confirmation	40,407,159	30,316,263
	<u>15,388,224,775</u>	<u>12,830,533,891</u>

(2) Operating lease commitments

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

	31 December 2018	31 December 2017
Within 1 year	124,853,760	156,983,519
Over 1 year less than 2 years	82,316,580	117,002,863
Over 2 year less than 3 years	17,289,479	75,064,465
Over 3 years	4,643,642	8,307,165
	<u>229,103,461</u>	<u>357,358,012</u>

(3) Legal proceedings

At 31 December 2018, there was no significant legal proceeding against the Bank (31 December 2017: nil).

(4) Capital commitments

As at 31 December 2018, the Bank has no significant capital commitments which require separate disclosure (31 December 2017: nil).

54 SUBSEQUENT EVENTS

On 30 January 2019, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 62.7 million, in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 1,297.6 million.

The Ministry of Finance revised and issued CAS 21 (Lease), requiring non-listed companies to apply it from 1 January 2021, and early implementation is encouraged. The Bank has decided to early adopt the above accounting standards from 1 January 2019.

CAS 21 (Lease) replaces the existing lease accounting guidance and requires almost all leases to be recognized on the balance sheet. It also changes the way in which lease expenses are presented in the income statement. The Bank will apply CAS 21 (Lease) on 1 January 2019, using the modified retrospective approach. The cumulative effect of adopting CAS 21 (Lease) will be recognized as an adjustment to the opening balance of undistributed profits at 1 January 2019, with no restatement of comparative information.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

55 SEGMENT INFORMATION

RMB('thousand)

31 December 2018

	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Chongqing	Tianjin	Nanning	Others	Elimination	Total
Interest income	370,803	2,856,982	736,135	314,388	164,435	108,751	78,551	51,281	41,358	182,695	(1,018,347)	3,887,032
Interest expense	(238,014)	(2,435,238)	(357,381)	(169,621)	(85,642)	(50,357)	(25,891)	(28,269)	(15,692)	(86,497)	1,018,347	(2,474,255)
Net interest income	132,789	421,744	378,754	144,767	78,793	58,394	52,660	23,012	25,666	96,198	-	1,412,777
Fee and commission income	2,812	149,640	60,809	19,168	10,313	6,034	24,675	3,910	21	10,699	-	288,081
Fee and commission expenses	(25,813)	(49,621)	(442)	(253)	(103)	(7)	(1)	(34)	-	(40)	-	(76,314)
Net fee and commission income	(23,001)	100,019	60,367	18,915	10,210	6,027	24,674	3,876	21	10,659	-	211,767
Other operating income	91,269	991,989	82,232	9,909	(17,948)	6,910	11,254	6,316	15	15,258	-	1,197,204
Operating expenses	(160,409)	(1,091,702)	(282,948)	(125,667)	(77,525)	(15,144)	(20,468)	(5,226)	59,653	(53,254)	-	(1,772,690)
Non-operating income/(losses)	1,610	1,869	474	(76)	237	36	31	-	-	59	-	4,240
Total profit/(loss) before tax	42,258	423,919	238,879	47,848	(6,233)	56,223	68,151	27,978	85,355	68,920	-	1,053,298
Loans and advances, net	333	27,535,966	4,258,047	2,870,369	2,814,623	1,610,970	1,029,367	290,841	761,258	2,878,478	-	44,050,252
Total assets	36,692,655	81,218,220	11,659,487	7,815,191	3,116,609	3,165,565	1,512,339	1,474,913	1,001,329	3,660,559	(24,215,436)	127,101,431
Due to customers	(342,887)	(33,989,351)	(9,447,642)	(6,755,611)	(2,060,097)	(2,694,991)	(1,003,964)	(1,613,521)	(885,123)	(2,200,339)	-	(60,993,526)
Total liabilities	(32,501,498)	(78,154,746)	(10,462,623)	(6,835,021)	(2,700,445)	(2,796,844)	(1,141,205)	(1,651,925)	(886,333)	(3,073,415)	24,215,436	(115,988,619)
Credit impairment losses	9,669	154,948	41,716	(8,635)	8,640	(16)	(1,976)	(13,144)	(64,741)	(1,715)	-	124,746
Depreciation and amortization	728	38,938	6,430	1,578	1,734	234	7	555	508	1,811	-	52,523
Capital expenditure	-	24,605	1,403	177	-	-	-	229	-	364	-	26,778

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

55 SEGMENT INFORMATION(continued)

RMB('thousand) 31 December 2017	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Chongqing	Tianjin	Nanning	Others	Elimination	Total
Interest income	243,474	2,726,829	568,462	608,715	224,015	81,868	71,294	34,739	41,459	231,136	(1,781,514)	3,050,477
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	419,833	290,272	129,622	60,486	39,207	43,852	11,591	23,146	90,676	-	1,208,339
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

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

55 SEGMENT INFORMATION(continued)

Geographical Information

The Bank's revenue from external customers is mainly from mainland China for 2018 and 2017. As at 31 December 2018 and 2017, all non-current assets of the Bank are located in mainland China.

56 Share-based Compensation Plans

The Bank provides various share-based compensation plans to foster a culture that aligns employees' interests with shareholders, enable employees to share in the bank's performance and enhance talent retention. The Bank, per review and approval by DBS China Board Compensation Committee, adopts the share-based Compensation Plans formulated by DBS Group as below:

DBSH Share Plan (Share Plan)

- The Share Plan is granted to Bank executives as determined by DBS Group's Compensation & Management Development Committee appointed to administer the Share Plan from time to time.
- Participants are awarded shares of the Company, or at the discretion of DBS Group's Compensation & Management Development Committee, their equivalent cash value or a combination.
- Awards consist of main award and retention award (20% of main award). Dividends on unvested shares do not accrue to employees.
- The main award vests from 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 awards will lapse immediately upon termination of employment, except in the event of ill health, injury, disability, redundancy, retirement or death.
- 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 DBS 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 DBS Group's Compensation & Management Development 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 DBS Group Annual Report.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

56 Share-based Compensation Plans

Number of shares	2018		2017	
	Share Plan	ESP	Share Plan	ESP
Balance at 1 January	768,353	189,862	432,738	195,686
Granted	129,113	48,375	188,838	75,500
Transfer	(131,031)	(1,403)	386,430	(98)
Vested	(200,735)	(57,841)	(212,305)	(50,815)
Forfeited	(13,914)	(20,589)	(27,348)	(30,411)
Balance at 31 December	551,786	158,404	768,353	189,862
Weighted average fair value of the shares granted during the year	SGD 26.24	SGD 26.46	SGD 18.58	SGD 18.58

57 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 2017	Change	31 December 2018
DBS Bank Ltd.	SGD 24,452 Million	-	SGD 24,452 Million

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

Name of entity	31 December 2017		Change		31 December 2018	
	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 (Taiwan) 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

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

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

(2) Related Person

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

(e) Related party transactions

(1) Pricing policy

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

(2) Significant related party transactions

(i) Interest income

	2018	2017
DBS Bank Ltd.	141,977,462	21,980,495
DBS Bank (Hong Kong) Limited	37,943	514,613
	<u>142,015,405</u>	<u>22,495,108</u>

(ii) Interest expense

	2018	2017
DBS Bank Ltd.	497,371,374	272,963,065
DBS Bank (Hong Kong) Limited	41,298,896	41,287,378
	<u>538,670,270</u>	<u>314,250,443</u>

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

	2018	2017
DBS Bank Ltd.	229,029,317	670,601,990
DBS Bank (Hong Kong) Limited	(484,680)	(589,009)
	<u>228,544,637</u>	<u>670,012,981</u>

(iv) Fair value gains/losses

	2018	2017
DBS Bank Ltd.	590,429,548	(50,438,310)
DBS Bank (Hong Kong) Limited	-	-
	<u>590,429,548</u>	<u>(50,438,310)</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

- (e) Related party transactions (continued)
(2) Significant related party transactions (continued)

(v) Service charge income

	2018	2017
DBS Bank Ltd.	21,522,156	13,762,058
DBS Bank (Hong Kong) Limited	1,450,927	1,785,414
	<u>22,973,083</u>	<u>15,547,472</u>

(vi) Service charge expense

	2018	2017
DBS Bank Ltd.	89,492,655	96,350,698
DBS Bank (Hong Kong) Limited	(1,090,408)	6,082,753
	<u>88,402,247</u>	<u>102,433,451</u>

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

- (3) Balances with related parties

(i) Due from other financial institution

	31 December 2018	31 December 2017
DBS Bank Ltd.	4,187,767,016	3,581,872,569
DBS Bank (Hong Kong) Limited	99,137,358	182,952,803
Interest receivable	2,760,908	N/A
	<u>4,289,665,282</u>	<u>3,764,825,372</u>

(ii) Interest receivable

	31 December 2018	31 December 2017
DBS Bank Ltd.	<u>N/A</u>	<u>954,957</u>

(iii) Other receivables

	31 December 2018	31 December 2017
DBS Bank Ltd.	35,547,445	27,078,077
DBS Bank (Taiwan) Limited	136,917	154,895
DBS Bank (Hong Kong) Limited	2,877,281	1,301,344
	<u>38,561,643</u>	<u>28,534,316</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(3) Balances with related parties (continued)

(iv) Deposits / borrowing from other financial institution

	31 December 2018	31 December 2017
DBS Bank Ltd.	13,528,631,755	28,522,762,477
DBS Bank (Hong Kong) Limited	68,989,400	87,022,001
DBS Vickers (Hong Kong) Limited	168,806	77,790
DBS Bank (Taiwan) Limited	2,909,008	1,394,992
Interest payable	137,656,423	N/A
	<u>13,738,355,392</u>	<u>28,611,257,260</u>

(v) Due to customers

	31 December 2018	31 December 2017
DBS Investment and Financial Advisory Company Limited	8,303,999	7,514,445
DBS Bank (Hong Kong) Limited	2,358,742	-
	<u>10,662,741</u>	<u>7,514,445</u>

(vi) Interest payable

	31 December 2018	31 December 2017
DBS Bank Ltd.	N/A	132,227,351
DBS Bank (Hong Kong) Limited	N/A	3,534,247
	<u>N/A</u>	<u>135,761,598</u>

(vii) Bonds issued

	31 December 2018	31 December 2017
DBS Bank (Hong Kong) Limited	<u>960,000,000</u>	<u>960,000,000</u>

(viii) Other payables

	31 December 2018	31 December 2017
DBS Bank Ltd.	892,208,243	263,181,665
DBS Bank (Hong Kong) Limited	1,438,024	5,872,381
	<u>893,646,267</u>	<u>269,054,046</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(e) Related party transactions (continued)

(ix) Derivative transactions

	31 December 2018	
	Notional amount	Fair value
DBS Bank Ltd.	68,816,610,346	(1,612,279,439)
DBS Bank (Hong Kong) Limited	34,337,750	(89,755)
	<u>68,850,948,096</u>	<u>(1,612,369,194)</u>

	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)
	<u>49,167,034,453</u>	<u>(50,503,466)</u>

(x) Standby letter of credit

	31 December 2018	31 December 2017
DBS Bank Ltd.	5,227,181,612	4,084,844,990
DBS Bank (Hong Kong) Limited	182,283,019	156,106,574
DBS Bank (Taiwan) Limited	-	1,106,998
	<u>5,409,464,631</u>	<u>4,242,058,562</u>

(xi) Letters of gurantee issued

	31 December 2018	31 December 2017
DBS Bank Ltd.	13,435,591	29,035,232
	<u>13,435,591</u>	<u>29,035,232</u>

(xii) Letters of credit issued

	31 December 2018	31 December 2017
DBS Bank Ltd.	192,329,793	111,639,455
DBS Bank (Hong Kong) Limited	10,175,805	103,678,642
	<u>202,505,598</u>	<u>215,318,097</u>

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits is comprised of:

	2018	2017
Salary and welfare	30,180,161	34,660,996
Share incentive plan	2,813,944	2,780,147
	<u>32,994,105</u>	<u>37,441,143</u>

58 FINANCIAL RISK MANAGEMENT

58.1 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 approach, 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 appetite 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 stress-testing scenarios (including macroeconomic variable projections) and review the results.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.1 Risk governance(continued)

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;
- 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.

58.2 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 the risk of lending, pre-settlement and settlement risk of foreign exchange, derivatives and debt securities.

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 ("CCRP") for Consumer Banking and Institutional Banking, by taking account of the local laws, regulations set forth the principles by which the Bank conducts its 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 on the implementation of the credit principles within the localized CCRPs and are adapted to reflect different credit environments and portfolio risk profiles.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

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

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

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

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

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

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

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

(ii) Traded products and securities

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

(iii) Loans to other banks and financial institutions

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

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts expressed in RMB unless otherwise stated) [English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

B Risk Methodologies (continued)

(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 an 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 counterparty directly correlates with the probability of defaulting due to the nature of the transactions. The Bank group has a policy to guide the handling of specific wrong-way risk transactions, and its risk measurement metric takes into account the higher risks associated with such transactions.

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

C Process, System and Reports

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

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

In addition, risk reporting on credit trends, which may include industry analysis, early warning alerts and significant weak credits, is submitted to the various credit committees, allowing key strategies and action plans to be formulated and evaluated. Credit control functions also ensure that any credit risks taken complies with group-wide credit risk policies and standards. 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 are monitored.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

D Collateral received

Where possible, the Bank takes collateral as a secondary source. This includes, but not limited to cash, marketable securities, property, trade receivables, guarantee, inventory and equipment and other physical and/or financial collateral. The Bank may also take fixed and floating charges on the assets of borrowers.

Policies are in place to determine the eligibility of collateral for credit risk mitigation. These include requiring specific collaterals to meet minimum requirements in order to be considered as effective risk mitigants. The Bank's collateral is generally diversified and periodic valuations of collateral are required. Real estate and cash constitute the bulk of its collateral, while marketable securities are immaterial.

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

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

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

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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

F Credit risk losses

Expected Credit Loss (ECL)

All financial assets, except for financial assets classified or designated as FVPL and equity securities, are subject to impairment and recognition of ECL. Off-balance sheet financial instruments that are also subject to ECL include financial guarantees and undrawn loan commitments.

Under new CASs of financial instruments, ECL will be assessed using an approach which classifies financial instruments into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile. A financial asset is classified under:

- Stage 1, if it was not credit-impaired upon origination, and there has not been a significant increase in its credit risk. Stage 1 ECLs are measured as the credit loss that is expected to result from a default occurring within the next 12 months;
- Stage 2, if it was not credit-impaired upon origination but has since experienced a significant increase in credit risk. Stage 2 ECLs are measured as the lifetime expected credit loss from a default from the expected remaining life of the instrument.
- Stage 3, if it has been credit-impaired with objective evidence of default. Stage 3 ECLs are also measured as lifetime expected credit loss from the expected remaining life of the financial instrument.

The application of the impairment requirements under new CASs of financial instruments are described in greater detail below.

Measurement of ECLs

ECLs are unbiased estimates of credit losses determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessments of future economic conditions. The measurement of ECL is typically a product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted using the original effective interest rate to the reporting date.

The Bank leverages the models / parameters implemented under the Basel II Internal Ratings-Based (IRB) framework where feasible and available, with calibration to meet the new CASs of financial instruments requirements. For portfolio without appropriate Basel model / parameters, other relevant historical information, loss experience or proxies will be utilised if deemed feasible, with a view to maximise the use of available information that is reliable and supportable. LGD have been primarily determined on a collective basis grouped by industry or products with shared risk characteristics.

A simplified approach using appropriate proxies has been applied to estimate the ECL for other assets such as trade receivables.

The Bank's approach to retail and wholesale portfolios including key judgements is set out below.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts expressed in RMB unless otherwise stated) [English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

F Credit risk losses (continued)

Expected Life

When measuring the ECL for Stage 2 assets, cashflows over the expected remaining life of the financial asset are considered. For most financial instruments, this is the same as the remaining contractual life which represents the maximum contractual period over which the Bank is exposed to the credit risk of the customers.

However, the expected remaining life of some retail revolving products may exceed the contractual maturity. For these products, a behavioural expected remaining life is estimated using the Bank's internal historical data based on the period over which the Bank is exposed to the credit risk of such customers.

Assessments of significant increase in credit risk

The analysis underpinning the assessment of whether a financial asset has experienced a significant increase in credit risk since origination is dependent on a range of qualitative and quantitative factors.

For wholesale exposures, financial instruments are deemed to have experienced a significant increase in credit risk when:

- observed changes in the probability of default, as observed by a downgrade in the Bank's internal credit risk rating for each obligor between initial recognition and reporting date, are more than pre-specified thresholds and;
- exposures are placed on specific categories of internal credit "watchlists" for closer scrutiny of developing credit issues.

For retail exposures, days past due is the main driver, supplemented with a PD based criterion.

In any event, all retail and wholesale exposures that are more than 30 days past due are considered to have demonstrated a significant increase in credit risk and are classified as Stage 2.

A Stage 2 exposure can migrate back to Stage 1 if it is assessed that there is evidence of a sustainable improvement in its credit profile.

The Bank has not used the low credit risk exemption for any financial instruments.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

F Credit risk losses (continued)

Definition of default for credit-impaired financial assets

Exposures are classified as Stage 3 if deemed to be credit-impaired or have suffered objective evidence of default as at the reporting date. The definition of default that is applied under new CASs of financial instruments is consistent with that specified in the Basel regulatory capital rules.

The Bank assesses whether there is evidence that a financial asset or a group of financial assets is impaired at each balance sheet date. The Bank carries out regular and systematic reviews of all credit facilities extended to customers. The criteria that the Bank uses to determine whether there is evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and/ or financial conditions;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- High probability of bankruptcy or other financial re-organisation of the borrower.

A Stage 3 exposure can be upgraded to Stage 2 if there are reasonable grounds to conclude that the obligor is able to service future principal and interest payments on the credit facility in accordance with the restructured terms.

Financial assets are written-off, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery in full or as determined by the Monetary Authority.

ECL Modelling- Point-in-Time and Forward-Looking Adjustments

Portfolio-specific adjustments are made to the Bank's existing credit rating models and processes to meet the requirements of new CASs of financial instruments.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

F Credit risk losses (continued)

For the wholesale portfolios, Credit risk Cycle Indices (CCIs) have been developed for significant industries and geographies using expected default frequencies. Expected default frequency is a market based default risk measure driven by equity prices, market volatility and leverage. CCIs are then used as inputs to convert the through-the-cycle PDs from Basel models / parameters into the point-in-time equivalents and also to incorporate forward-looking factors into the PDs. LGDs are based on historical data adjusted for latest and forecasted recovery experience. Basel EADs are reduced by contractual repayments to derive the forecasted EAD for stage 2 exposures. No adjustments are made to Basel EADs for stage 1 exposures.

For retail portfolios, forecasted loss rates based on adjustments to historical loss experience, informed by management's forecast on relevant macroeconomic variables, such as property-price indices and unemployment rates, are used.

Expert credit judgement and post model adjustments

The measurement of ECLs requires application of expert credit judgement. Key areas of judgement include:

- The risk rating assignment and determining whether exposures should be placed on credit watchlists;
- Determination of the criteria for significant increase in credit risk;
- Establishment of groups of similar financial assets for measuring ECL;
- Forecast and the selection of macro-economic variables such as property-price indices, unemployment rates and gross domestic product and determining its effect on the loss rates for the retail portfolio; and
- Adjustments made as part of the post-model adjustment framework (elaborated below).

Post-model Adjustment based on regulatory guidance

The ECL amount calculated from the model is further adjusted in accordance with the relevant guidance issued by CBIRC. After such adjustments, the Bank's ECL allowance for loans and advances reaches 2.5% of the gross amount of loans and advances and 246% of non-performing loans as at 31 December 2018.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

G Maximum exposure to credit risk – financial instruments included in impairment assessment

	31 December 2018	31 December 2017
Deposits with other banks	6,780,363,046	10,534,746,393
Placements with financial institutions	25,827,256,895	20,298,748,020
Trading assets	14,887,478,610	N/A
Financial assets at fair value through profit or loss	N/A	19,917,284,916
Derivative assets	12,784,311,778	8,365,624,289
Financial assets purchased under resale agreements	-	50,539,752
Interest receivable	N/A	714,511,277
Loans and advances	44,050,252,052	44,245,741,851
Other debt instruments	6,888,684,172	N/A
Investment securities – available-for-sale	N/A	2,709,065,463
Debt instruments	157,077,499	N/A
Investment securities – loans and receivables	N/A	469,217,894
Other financial assets	1,636,837,277	2,965,714,327
Sub-total	<u>113,012,261,329</u>	<u>110,271,194,182</u>
Letters of credit issued	2,534,986,131	3,327,277,162
Standby letter of credit	5,504,221,048	4,365,485,792
Letters of guarantee issued	1,385,666,535	924,197,154
Irrevocable loan commitment	2,419,522,753	1,801,408,829
Bank acceptances	3,503,421,149	2,381,848,691
Letters of credit confirmation	40,407,159	30,316,263
Sub-total	<u>15,388,224,775</u>	<u>12,830,533,891</u>
Total	<u>128,400,486,104</u>	<u>123,101,728,073</u>

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2018, 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, 39% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2017: 40%).

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

H Loans and advances and due from banks and other financial institutions

	31 December 2018	
	Loans and advances	Due from banks and other financial institutions
Neither past due nor impaired	43,983,171,487	25,496,724,517
Past due but not impaired	490,492,275	-
Impaired	455,437,057	-
Interest receivable	245,099,632	342,357,660
Total	<u>45,174,200,451</u>	<u>25,839,082,177</u>
Less: ECL allowance	(1,123,948,399)	(11,825,282)
Net	<u>44,050,252,052</u>	<u>25,827,256,895</u>

(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 2018			
Pass	37,947,743,808	5,937,434,551	43,885,178,359
Special mention	83,435,989	14,557,139	97,993,128
	<u>38,031,179,797</u>	<u>5,951,991,690</u>	<u>43,983,171,487</u>

(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 2018					
Corporate loans	6,712,551	4,293,773	47,111,393	-	58,117,717
Retail loans	370,295,845	52,031,399	10,047,314	-	432,374,558
Total	<u>377,008,396</u>	<u>56,325,172</u>	<u>57,158,707</u>	<u>-</u>	<u>490,492,275</u>
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	<u>426,716,439</u>	<u>8,388,079</u>	<u>17,057,522</u>	<u>-</u>	<u>452,162,040</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)**58.2 Credit risk (continued)****H Loans and advances and due from banks and other financial institutions (continued)**

(iii) Loans and advances impaired

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it become more likely that the Bank will take possession of collateral to mitigate potential credit losses. The collateral value for retail loans sufficiently covers the outstanding exposure at year end. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

31 December 2018

	Gross exposure	Impairment allowa	Carrying amount	Fair value of collateral held
Corporate loans	375,790,497	188,119,214	187,671,283	80,957,250
Retail loans	79,646,560	28,481,458	51,165,102	
Total	455,437,057	216,600,672	238,836,385	

31 December 2017

	Corporate loans	Retail loans	Total
Impaired assets	314,935,976	63,314,948	378,250,924

As of 31 December 2017, the Bank's provision for impairment losses on loans and advances individually assessed were RMB 378,250,924 (without collateral were RMB 142,191,389). The fair value of the collateral corresponding to the loans was RMB 242,497,250.

(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 2018, the renegotiated loans held by the Bank is zero. As of 31 December 2017, the renegotiated loans held by the Bank is RMB 136 million.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.2 Credit risk (continued)

I Investment securities

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

RMB Securities	Trading assets	Other debt instruments	Debt instruments
31 December 2018			
Rated as AAA	5,672,826,286	219,276,633	158,850,000
Rated as AA+	149,971,730	-	-
Rated as AA	-	-	-
Unrated:	-	-	-
PBOC notes	-	-	-
Bonds issued by policy			
banks	7,928,610,275	2,966,677,998	-
Treasury bonds	771,723,285	3,515,487,714	-
Local Treasury bonds	161,899,915	39,899,849	-
Interest Receivable	202,447,119	147,341,978	135,262
Less: ECL allowance	-	-	(1,907,763)
	<u>14,887,478,610</u>	<u>6,888,684,172</u>	<u>157,077,499</u>

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	-
	<u>19,917,284,916</u>	<u>2,709,065,463</u>	<u>469,217,894</u>

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.3 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) debt securities comprising of investments held for yield and / or long-term capital gains; and (iii) structural foreign exchange risk arising mainly from the Bank's USD capital.

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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.3 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, revenues from intra-day trading, and non-daily valuation adjustments and time effects.

For back-testing, VaR at the 99% level of confidence and over a one-day holding period is used. The Bank adopts the standardized approach to compute market risk regulatory capital for the trading book positions. As such, VaR back-testing does not impact the Bank's regulatory capital for market risk.

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.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts expressed in RMB unless otherwise stated) [English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.3 Market risk (continued)

B Market Risk in 2018

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 the Bank's PSGL rates for presentation purpose.

RMB in million	As at 31 December 2018	2018		
		Average	Highest	Lowest
Total	18.23	14.06	19.88	8.38

RMB in million	As at 31 December 2017	2017		
		Average	Highest	Lowest
Total	9.87	9.35	17.84	5.05

The key market risk factors driving Treasury's trading portfolios in 2018 were RMB interest rate, USD/RMB foreign exchange and credit spread.

The estimated MtM PL for RMB interest rate position as at 31 December 2018, assuming a 100 basis point increase in general interest rates was a decrease of RMB97 million.

The estimated MtM PL for foreign exchange position as of 31 December 2018, assuming USD appreciation by 3% and USD/RMB FX volatility increase by 40% was a decrease of RMB404 million.

Banking Portfolio

The key market risk drivers of banking portfolios are RMB and USD interest rate positions. The economic value impact of changes in interest rates was assessed with plausible rates movements and characteristics of the Banking Book assets and liabilities. The economic value changes¹ based on the worse of an upward parallel shift in the yield curve of 100 basis points and 200 basis points were negative RMB 93 million and negative RMB 181 million.

¹ To align the Group practice, the methodology of computing the economic value impact for 2018 annual disclosure is changed from sensitivity method in 2017 to full revaluation.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.4 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, utilization 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.

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 including general market and idiosyncratic stress scenarios. Stress tests assess the Bank's vulnerability when liability run-offs increase, asset rollovers increase and/or liquid asset buffers decrease. In addition, ad hoc stress tests are performed as part of the Bank's ICAAP exercises.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.4 Liquidity risk(continued)

A Liquidity Risk Management (continued)

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 2018

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.

The table below shows behavioural net and cumulative maturity mismatch between assets and liabilities over a one-year period, in a normal scenario without incorporating growth projections. The Bank's liquidity was observed to remain adequate in the maturity mismatch analysis.

The following table is computed in US dollars and translated into Renminbi using the Bank's PSGL rates for presentation purpose.

RMB in million(a)	Less than 7 days	1 week to 1 month	>1 month to 3 months	>3 months to 6 months	> 6 months to 1 year
As at 31 Dec 2018					
Net liquidity mismatch	26,482	3,049	(3,288)	1,966	1,190
Cumulative mismatch	26,482	29,531	26,243	28,209	29,399
As at 31 Dec 2017(b)					
Net liquidity mismatch	12,207	9,325	3,381	56	(8,439)
Cumulative mismatch	12,207	21,532	24,913	24,969	16,531

(a)Positive indicates a position of liquidity surplus. Negative indicates a liquidity shortfall that has to be funded.

(b)As the behavioural assumptions used to determine the maturity mismatch between assets and liabilities are updated from time to time, the liquidity mismatches may not be directly comparable across past balance sheet dates.

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

58 FINANCIAL RISK MANAGEMENT (continued)

58.4 Liquidity risk (continued)

C 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 2018						
Financial Liabilities						
Deposits from other banks and financial institutions	2,295,840,304	-	51,659,204	-	-	2,347,499,508
Borrowing from other banks	10,344,206,578	2,093,879,463	8,302,460,958	-	-	20,740,546,999
Due to customers	39,472,951,418	8,944,520,688	10,962,897,071	1,813,675,616	39,810,592	61,233,855,385
Bonds issued	1,350,000,000	850,000,000	622,500,000	5,274,812,743	-	8,097,312,743
Financial assets sold under repurchase agreements	3,628,870,318	-	-	-	-	3,628,870,318
Others	2,686,280,175	-	-	5,765,336,688	-	8,451,616,863
Total financial liabilities	59,778,148,793	11,888,400,151	19,939,517,233	12,853,825,047	39,810,592	104,499,701,816
Financial Assets						
Cash and deposits with the central bank	13,456,127,182	-	-	-	-	13,456,127,182
Deposits with other banks	3,164,543,207	1,109,937,500	2,551,651,847	-	-	6,826,132,554
Placements with financial institutions	9,024,753,575	3,454,443,864	10,378,155,049	3,027,636,083	-	25,884,988,571
Trading assets	361,440,836	1,491,253,195	5,531,193,064	7,631,717,767	570,844,600	15,586,449,462
Loans and advances	5,627,419,897	9,900,150,204	11,558,447,648	17,096,662,370	7,956,492,183	52,139,172,302
Other debt instruments	98,641,000	9,812,000	1,438,134,220	5,081,782,800	870,980,000	7,499,350,020
Debt instruments	698,853	1,330,075	6,166,967	160,888,430	-	169,084,325
Others	1,414,656,790	-	181,297,109	40,883,378	-	1,636,837,277
Total financial assets	33,148,281,340	15,966,926,838	31,645,045,904	33,039,570,828	9,398,316,783	123,198,141,693
Net cash flows	(26,629,867,453)	4,078,526,687	11,705,528,671	20,185,745,781	9,358,506,191	18,698,439,877

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

58 FINANCIAL RISK MANAGEMENT (continued)

58.4 Liquidity risk (continued)

C Non-derivative cash flows of financial assets and liabilities(continued)

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 – at 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 – at 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

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

58 FINANCIAL RISK MANAGEMENT (continued)

58.4 Liquidity risk (continued)

D 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 2018						
Interest rate derivatives	<u>(22,407,893)</u>	<u>40,440,852</u>	<u>(30,750,525)</u>	<u>(36,281,868)</u>	<u>4,727,382</u>	<u>(44,272,052)</u>
31 December 2017						
Interest rate derivatives	<u>(7,722,484)</u>	<u>(32,086,884)</u>	<u>(9,655,759)</u>	<u>16,963,428</u>	<u>4,456,961</u>	<u>(28,044,738)</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

58 FINANCIAL RISK MANAGEMENT (continued)

58.4 Liquidity risk (continued)

D 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 2018						
Foreign exchange derivatives						
– Outflow	125,965,511,393	122,816,221,035	253,215,171,548	15,184,741,067	-	517,181,645,043
– Inflow	<u>125,974,516,863</u>	<u>123,182,272,096</u>	<u>253,823,053,965</u>	<u>15,170,878,675</u>	<u>-</u>	<u>518,150,721,599</u>
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	<u>191,634,394,761</u>	<u>118,135,827,680</u>	<u>240,751,080,199</u>	<u>12,254,532,353</u>	<u>-</u>	<u>562,775,834,993</u>

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.4 Liquidity risk (continued)

E Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
31 December 2018				
Letters of credit issued	2,534,986,131	-	-	2,534,986,131
Letters of guarantee issued	672,983,911	173,067,280	539,615,343	1,385,666,534
Irrevocable loan commitment	-	2,419,628,773	-	2,419,628,773
Bank acceptances	3,503,421,149	-	-	3,503,421,149
Standby letter of credit	3,126,221,866	2,377,999,183	-	5,504,221,049
Letters of credit confirmation	40,407,159	-	-	40,407,159
Operating lease commitments	124,853,760	104,249,701	-	229,103,461
Total	10,002,873,976	5,074,944,937	539,615,343	15,617,434,256
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

58.5 Fair value hierarchy

IFRS No.7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

DBS BANK (CHINA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value

31 December 2018

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading assets	- 14,715,160,166	172,318,444	14,887,478,610	
- Derivatives assets	- 12,776,940,636	7,371,142	12,784,311,778	
Other debt instruments	- 6,888,684,172	-	6,888,684,172	
Total Assets	- 34,380,784,974	179,689,586	34,560,474,560	
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	- (11,946,258,518)	(2,396,182)	(11,948,654,700)	
- Financial assets sold under repurchase agreements	- (3,627,249,015)	-	(3,627,249,015)	
Total Liabilities	- (15,573,507,533)	(2,396,182)	(15,575,903,715)	

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)	

(b) Movement of level 3 instruments

	Derivatives assets	Trading assets	Derivative liabilities	Total
31 December 2017	-	-	-	-
Transfer in	-	-	-	-
Buy	7,371,142	172,318,444	(2,396,182)	177,293,404
Sell	-	-	-	-
31 December 2018	7,371,142	172,318,444	(2,396,182)	177,293,404

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)

58.5 Fair value hierarchy(continued)

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

Fair values estimation is made in accordance with information of market and financial instruments in some

specific point. Estimation is based on following methods and supposition:

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

Given that maturities of these financial assets and liabilities are either short-term or re-priced more than once every year; the carrying amount approximates the fair value, belonging to level 2.

Loans and advances

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

Customer deposits

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

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

DBS BANK (CHINA) LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

58 FINANCIAL RISK MANAGEMENT (continued)**58.6 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 2018	31 December 2017
Core Tier 1 capital adequacy ratio	12.5%	12.8%
Tier 1 capital adequacy ratio	12.5%	12.8%
Total capital adequacy ratio	15.5%	15.7%
Core Tier 1 capital	11,088,892,678	10,529,497,296
Regulatory Deductions for Core Tier 1 capital	-	-
Net core Tier 1 capital	11,088,892,678	10,529,497,296
Other Tier 1 capital	-	-
Net Tier 1 capital	11,088,892,678	10,529,497,296
Tier 2 capital	2,668,511,500	2,434,006,200
Total regulatory capital	13,757,404,178	12,963,503,496
Total risk-weighted assets	88,891,332,500	82,355,829,000